



## KENTUCKY RETIREMENT SYSTEMS

William A. Thielen, Executive Director

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### MEMORANDUM

TO: State News Media

FROM: Kentucky Retirement Systems

DATE: February 11, 2016

SUBJECT: Notice of Meetings REVISED

The Kentucky Retirement Systems Human Resources Committee meeting on Thursday, February 18, 2016 has been **cancelled**. The next scheduled quarterly meeting is Thursday, May 19, 2016.

The Kentucky Retirement Systems Board of Trustees will hold a regular quarterly meeting on Thursday, February 18, 2016 at 9:00 a.m. (Eastern time) for the purpose of conducting the business set forth on the attached agenda. Portions of this meeting will be held in closed session.

The meeting will be held in the KRS Boardroom at 1270 Louisville Road, Frankfort, Kentucky 40601.

cc: Meeting Notification List

**KENTUCKY RETIREMENT SYSTEMS**  
**BOARD OF TRUSTEES**  
**REGULAR QUARTERLY MEETING**  
**FEBRUARY 18, 2016 AT 9:00 A.M., ET**  
**1270 LOUISVILLE ROAD, FRANKFORT, KENTUCKY 40601**

- |                 |     |                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-----------------|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>9:00 am</i>  | 1.  | Roll Call                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <i>9:01 am</i>  | 2.  | Introduction of New Board Member – Thomas B. Stephens                                                                                                                                                                                                                                                                                                                                                                                               |
| <i>9:02 am</i>  | 3.  | Approval of Minutes No. 401                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <i>9:05 am</i>  | 4.  | Affirmative Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <i>9:10 am</i>  | 5.  | Public Comment                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <i>9:40 am</i>  | 6.  | Audit Committee Quarterly Report                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <i>10:00 am</i> | 7.  | Human Resources Committee Quarterly Report                                                                                                                                                                                                                                                                                                                                                                                                          |
| <i>10:30 am</i> | 8.  | Quarterly Financial Statements as of December 31, 2016 (unaudited)                                                                                                                                                                                                                                                                                                                                                                                  |
| <i>10:35 am</i> | 9.  | Recognition of Trustees: Dr. Daniel Bauer and Mike Cherry                                                                                                                                                                                                                                                                                                                                                                                           |
| <i>10:45 am</i> | 10. | <i>Break</i>                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <i>11:00 am</i> | 11. | Investment Committee and Investment Portfolio Quarterly Report                                                                                                                                                                                                                                                                                                                                                                                      |
| <i>11:30 am</i> | 12. | Legislative Update                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <i>12:00 pm</i> | 13. | Quarterly Budget Update                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <i>12:10 pm</i> | 14. | Informational Reports <ul style="list-style-type: none"> <li>• Initial Retirement Cases, 2<sup>nd</sup> Quarter 2016</li> <li>• Death Benefit Cases, 2<sup>nd</sup> Quarter 2016</li> <li>• Refund of Member Contributions for 2<sup>nd</sup> Quarter 2016</li> <li>• Report of Decisions by the Medical Examiners</li> <li>• Disability Appeals Committee Quarterly Report</li> <li>• Administrative Appeals Committee Quarterly Report</li> </ul> |
| <i>12:15 pm</i> | 15. | Participation of Additional Agencies & Hazardous Positions                                                                                                                                                                                                                                                                                                                                                                                          |
| <i>12:20 pm</i> | 16. | <i>Lunch</i>                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <i>12:45 pm</i> | 17. | Consideration of Agency Applications for Withdrawal from KERS Nonhazardous Plan                                                                                                                                                                                                                                                                                                                                                                     |
| <i>1:45 pm</i>  | 18. | Other Business <ul style="list-style-type: none"> <li>• Board retreat location and dates</li> <li>• Hardship exemption for failure to file Form 6256</li> <li>• Fix interest rate for all service purchase and benefit calculations</li> <li>• Declaration of KRS surplus property</li> </ul>                                                                                                                                                       |
| <i>2:15 pm</i>  | 17. | Pending Litigation ( <b>Closed Session</b> )                                                                                                                                                                                                                                                                                                                                                                                                        |
| <i>2:45 pm</i>  | 18. | <i>Adjourn</i>                                                                                                                                                                                                                                                                                                                                                                                                                                      |

*\*Times listed are approximate.*

## **KENTUCKY RETIREMENT SYSTEMS**

**TO:** Members of the Board

**FROM:** William A. Thielen  
Executive Director

**DATE:** February 18, 2016

**SUBJECT:** Affirmative Action Plan

Pursuant to Section 3.03 of the Kentucky Retirement Systems Personnel Policies, the Kentucky Retirement Systems has implemented an Affirmative Action Plan to promote and assure equitable treatment of all persons who are now employed, being considered for employment, seeking employment, and who will be recruited for employment in the future. The Kentucky Retirement Systems has already taken substantial steps towards fulfilling the requirements of the Affirmative Action Plan, as described in Section 3.03(3) of the Personnel Policy.

The Kentucky Retirement Systems provides periodic training to its leadership team to ensure compliance with federal and state laws. Such training covers harassment based on all legally protected categories (race, color, sex, religion, national origin, age, and disability), anti discrimination laws in general, and reasonable accommodation and inquiries under the ADA.

The Kentucky Retirement Systems continues to seek appropriate recruitment sources for females and minorities.

The current employment statistics for the Kentucky Retirement Systems show that as of December 31, 2015, there are 262 full-time employees. There are 159 female employees, representing 60.69% of the staff, and 26 employees who are members of minority groups, representing approximately 9.92% of the staff. Females make up 56.86% of the leadership positions in the Kentucky Retirement Systems, while employees who are members of minority groups hold 5.88% of the leadership positions in the Kentucky Retirement Systems.

In order to establish clear long term-hiring goals for minorities and females, Kentucky Retirement Systems will follow the goals provided by the Commonwealth of Kentucky's Personnel Cabinet. The current goal for minority employment in State Government is 12.2% through December 31, 2015.

**RECOMMENDATION:** This memorandum is presented for informational purposes only.

## KENTUCKY RETIREMENT SYSTEMS

OVERALL AND MINORITY FULL TIME EMPLOYMENT  
BY TYPE OF EMPLOYMENT AND DIVISION  
AS OF DECEMBER 31, 2015

KRS AREA/DIVISION	KRS EMPLOYMENT CATEGORY											
	<u>LEADERSHIP</u>			<u>PROFESSIONAL</u>			<u>SUPPORT</u>			<u>TOTALS</u>		
	<u>Total</u>	<u>Minor.</u>	<u>(%)</u>	<u>Total</u>	<u>Minor.</u>	<u>(%)</u>	<u>Total</u>	<u>Minor.</u>	<u>(%)</u>	<u>Total</u>	<u>Minor.</u>	<u>(%)</u>
Executive Staff	5	0	0.0%	0	0	0.0%	2	0	0.0%	7	0	0.0%
Communications	1	0	0.0%	4	0	0.0%	0	0	0.0%	5	0	0.0%
Legal	3	1	33.3%	7	0	0.0%	5	0	0.0%	15	1	6.7%
Human Resources	1	0	0.0%	3	1	33.3%	0	0	0.0%	4	1	25.0%
Internal Audit	1	0	0.0%	2	1	50.0%	0	0	0.0%	3	1	33.3%
<b>Administration</b>	<b>11</b>	<b>1</b>	<b>9.1%</b>	<b>16</b>	<b>2</b>	<b>12.5%</b>	<b>7</b>	<b>0</b>	<b>0.0%</b>	<b>34</b>	<b>3</b>	<b>8.8%</b>
<b>Accounting</b>	3	0	0.0%	9	0	0.0%	0	0	0.0%	12	0	0.0%
<b>Disability &amp; Death</b>	5	0	0.0%	18	1	5.6%	4	0	0.0%	27	1	3.7%
<b>Employer Reporting Compliance &amp; Education</b>	3	0	0.0%	19	3	15.8%	0	0	0.0%	22	3	13.6%
<b>Enterprise &amp; Technology Services</b>	6	0	0.0%	30	5	16.7%	5	0	0.0%	41	5	12.2%
<b>Investments</b>	3	0	0.0%	4	1	0.0%	1	0	0.0%	8	1	12.5%
<b>Member Services</b>	7	0	0.0%	35	3	8.6%	2	0	0.0%	44	3	6.8%
<b>Membership Support</b>	4	1	25.0%	20	1	5.0%	5	1	20.0%	29	3	10.3%
<b>Procurement &amp; Office Services</b>	4	1	25.0%	0	0	0.0%	13	3	23.1%	17	4	23.5%
<b>Retiree Health Care</b>	3	0	0.0%	15	1	6.7%	2	0	0.0%	20	1	5.0%
<b>Retiree Services (Payroll)</b>	2	0	0.0%	6	2	33.3%	0	0	0.0%	8	2	25.0%
<b>TOTALS</b>	<b>51</b>	<b>3</b>	<b>5.88%</b>	<b>172</b>	<b>19</b>	<b>11.05%</b>	<b>39</b>	<b>4</b>	<b>10.26%</b>	<b>262</b>	<b>26</b>	<b>9.92%</b>

**KENTUCKY RETIREMENT SYSTEMS**

OVERALL AND MINORITY (FEMALE) FULL TIME EMPLOYMENT  
BY TYPE OF EMPLOYMENT AND DIVISION  
AS OF DECEMBER 31, 2015

KRS AREA/DIVISION

KRS EMPLOYMENT CATEGORY

	<u>LEADERSHIP</u>			<u>PROFESSIONAL</u>			<u>SUPPORT</u>			<u>TOTALS</u>		
	<u>Total</u>	<u>Female</u>	<u>(%)</u>	<u>Total</u>	<u>Female</u>	<u>(%)</u>	<u>Total</u>	<u>Female</u>	<u>(%)</u>	<u>Total</u>	<u>Female</u>	<u>(%)</u>
Executive Staff	5	2	40.0%	0	0	0.0%	2	2	100.0%	7	4	57.1%
Communications	1	1	100.0%	4	3	75.0%	0	0	0.0%	5	4	80.0%
Legal	3	2	66.7%	7	4	57.1%	5	5	100.0%	15	11	73.3%
Human Resources	1	1	100.0%	3	3	100.0%	0	0	0.0%	4	4	100.0%
Internal Audit	1	1	100.0%	2	2	100.0%	0	0	0.0%	3	3	100.0%
<b>Administration</b>	<b>11</b>	<b>7</b>	<b>63.6%</b>	<b>16</b>	<b>12</b>	<b>75.0%</b>	<b>7</b>	<b>7</b>	<b>100.0%</b>	<b>34</b>	<b>26</b>	<b>76.5%</b>
<b>Accounting</b>	3	2	66.7%	9	8	88.9%	0	0	0.0%	12	10	83.3%
<b>Disability &amp; Death</b>	5	4	80.0%	18	15	83.3%	4	4	100.0%	27	23	85.2%
<b>Employer Reporting Compliance &amp; Education</b>	3	2	66.7%	19	12	63.2%	0	0	0.0%	22	14	63.6%
<b>Enterprise &amp; Technology Services</b>	6	2	33.3%	30	10	33.3%	5	1	20.0%	41	13	31.7%
<b>Investments</b>	3	0	0.0%	4	1	0.0%	1	1	0.0%	8	2	25.0%
<b>Member Services</b>	7	5	71.4%	35	18	51.4%	2	2	100.0%	44	25	56.8%
<b>Membership Support</b>	4	1	25.0%	20	10	50.0%	5	5	100.0%	29	16	55.2%
<b>Procurement &amp; Office Services</b>	4	2	50.0%	0	0	0.0%	13	9	69.2%	17	11	64.7%
<b>Retiree Health Care</b>	3	3	100.0%	15	7	46.7%	2	2	100.0%	20	12	60.0%
<b>Retiree Services (Payroll)</b>	2	1	50.0%	6	6	100.0%	0	0	0.0%	8	7	87.5%
<b>TOTALS</b>	<b>51</b>	<b>29</b>	<b>56.86%</b>	<b>172</b>	<b>99</b>	<b>57.56%</b>	<b>39</b>	<b>31</b>	<b>79.49%</b>	<b>262</b>	<b>159</b>	<b>60.69%</b>

# KENTUCKY RETIREMENT SYSTEMS

## Board Meeting Public Participation Policy

**The Kentucky Retirement Systems (KRS) Board of Trustees has adopted the following policies regarding public participation at meetings of the KRS Board:**

1. Public comments may be allowed at meetings of the KRS Board of Trustees. Public comments will not be accepted at KRS Board committee meetings.
2. The Board shall only accept comments regarding items that are included on the meeting agenda.
3. Public comments will only be accepted during the portion of the meeting set aside for public comments. The portion of the meeting set aside for public comments, if any, will be noted on the agenda of each meeting.
4. The Board shall allot no more than a total of thirty (30) minutes for public comments at any regular or special meeting. No individual presentation shall exceed three (3) minutes. The Board Chair shall have the authority to limit or extend the amount of time for public or individual comments set forth in this section, unless determined by a majority vote of the full Board. Statements shall be timed by the Board Chair or designee and time limits will be strictly enforced.
5. A person who desires to speak to the Board shall register at the Board meeting room on the day of the meeting. Registration sheets shall customarily be available at least thirty (30) minutes prior to the scheduled start of the Board meeting, and registration shall close five (5) minutes before the scheduled start of the meeting. Required registration information shall include the name and address of the person providing the comments, the name of the organization (if any) the person represents, the topic(s) to be discussed, and, if the person is a pension system member, the name of the pension system in which the person participates.
6. Public comments are subject to the following rules:
  - a. A person who has registered to speak shall, at the appropriate time, be acknowledged by the Board Chair. The person shall state his/her first and last name before speaking and state the topic to be addressed.
  - b. Written comments may be submitted to the Board Chair by a speaker and copies shall be distributed to the full Board following the meeting.
  - c. No person may speak more than once on the same topic.
  - d. Comments shall be directed to the Board, not to individual Board members. Questions to the Board or individual board members will not be entertained.
  - e. Statements shall not be abusive or argumentative. No profane or vulgar language will be tolerated.
5. The Board chair shall enforce these rules and may, subject to appeal to the full Board, take actions necessary to maintain order at the Board meeting. Such actions may include, but are not limited to:
  - a. interrupting a person making a statement, if the statement is too lengthy, unduly repetitive or otherwise violates these rules; and
  - b. limiting the total amount of time devoted to public statements based on the number of persons wishing to make statements and the length of the Board's agenda.

**KENTUCKY RETIREMENT SYSTEMS**

**TO:** Members of the Board  
**FROM:** William A. Thielen, Esq.  
Executive Director  
**DATE:** February 18, 2016  
**SUBJECT:** Quarterly Reports of the Audit Committee

The Audit Committee held its quarterly meeting on February 4, 2016. The purpose of the meeting was to review and discuss, among other miscellaneous audit related items, the following:

➤ *Review of Investment Financial Reporting*

*Please see the attached spreadsheet with findings, recommendations, and management's corrective action.*

**Request the Board of Trustees to approve the Investment Financial Audit Report.**

➤ *Review of Investment Performance Audit*

*An audit of Investment Performance was included on the fiscal year 2016 audit plan. This area received a risk score of 4.30 on the most recent risk assessment. A review of investment financials was performed for the period ending December 31, 2014. Included in the investment financials review, was an assessment of Kentucky Retirement Systems' (KRS) performance reporting. No exceptions were found. Accordingly, since investment performance has been recently assessed, with no exceptions found, and audit of investment performance is not likely to identify any unknown or unforeseen risk.*

**Request the Board of Trustees to approve the Investment Performance Audit memo.**

- *Review of Quarterly Financial Statements 12/31/2015*
- *Review of Fiscal Year End June 30, 2015, End of Audit Requirements*
- *Review of Outstanding Invoices*
- *Review of Management Follow up on Audit Findings and Recommendations Summary Dashboard*
- *Review of Information Disclosure Incidents, 3<sup>rd</sup> Quarter Calendar Year 2015*
- *Review of Internal Audit Budget 9/30/2015*
- *Review of Anonymous Reporting Spreadsheet*
- *Review of Investment Compliance Report*
- *Status of Current Audits Memoranda*
- *County Employees Retirement System Board Election Memoranda*

**RECOMMENDATION:** The Audit Committee requests that the Board ratify the actions taken by the Audit Committee.

Rating	Exception	Recommendation	Management Remediation	Date Completed	Date Verified	
1	HIGH ● \$	\$117,357 in management fees, that were wired as part of a Note to a private equity fund, were classified as capital investment.	Manually complete a template for this private equity fund beginning July 1, 2015, and send the template to the custodian.	Journal entries for 6/30/15, recording the management fees, note and interest receivable were completed.	10/9/2015	10/14/2015
			Capital account statements sent to KRS' custodian to record fees.		1/4/2016	1/19/2016
2	HIGH ●	Management fees for 15 alternative investments managers appeared higher than agreed upon rate. KRS' investment department does not currently review management fees for alternative investments.	Review fees on capital account statements for accuracy, prior to paying the management fee.	The Deputy Controller drafted and provided procedures relating to verifying investment fees with the contract.	1/19/2016	1/19/2016
3	MEDIUM ●	KRS paid \$ 14,167,277.33 in management and performance fees in open-end funds that were reported on its financials under the equity method instead of the proportional share method	Manually complete a template for open-end funds beginning July 1, 2015, and make sure there is a requirement to complete a fee template in all subsequent contracts with private funds.	The Deputy Controller drafted and provided procedures relating to reconciling and reporting monthly or quarterly statements from KRS' external investment managers.	1/19/2016	1/19/2016
				Templates have been sent and the custodian is reporting fees for most of KRS' open-end funds. The Deputy Controller is working with the remaining funds and the custodian to resolve this issue.	1/19/2016	1/19/2016
4	MEDIUM ●	Fees were being reported by the custodian using the value accrued (\$13,599,175.36), and not value of actually paid (\$11,974,466.14) in management fees	Once manager fees are paid for a time period, the Statement of Change Report should reflect that value paid, not the amount accrued for that time period.	KRS' custodian was instructed to reverse the accruals for these managers going back to July 1, 2013, and undue the reversal of the actual investment fees paid	7/20/2015	7/24/2015
5	MEDIUM ●	The accrual schedule for four investment managers did not match the investment management contract. Upon notification by Compliance, the custodian adjusted the accrual schedule.	Perform a review of the accrual schedule at least annually to keep it current.	The Deputy Controller drafted and provided procedures relating to the annual review and update of the accrual schedule.	1/19/2016	1/19/2016
6	MEDIUM ●	The LPA for a private equity fund did not contain a clause outlining the removal of the general partner	KRS external counsel has prepared a privileged memo on this issue to which Compliance will defer.	While written procedures have not yet been drafted, as a result of a recommendation in a previous audit, KRS' General Counsel is now working on investment contracts during the negotiation and drafting process and will monitor this issue going forward.	1/19/2016	1/20/2016
7	MEDIUM ●	KRS has entered into side letter agreements with two private equity funds, and their LPAs that do not have specific language to enable the general partner enter into side letter agreements.	KRS external counsel has prepared a privileged memo on this issue to which Compliance will defer.	While written procedures have not yet been drafted, as a result of a recommendation in a previous audit, KRS' General Counsel is now working on investment contracts during the negotiation and drafting process and will monitor this issue going forward.	1/19/2016	1/20/2016
8	MEDIUM ●	KRS is invested in four Private Equity funds that continue to exist beyond the terms in the LPA. KRS paid \$19,966 in management fees to one of the funds. The remaining three funds did not have any management fees.	one fund made a final distribution on August 26, 2015. Continue to monitor the three remaining funds, and stay on top of the General Partners with respect to following the dissolution game plan.	Since October, another fund has ended, with final residual payments due in 2016. Investment staff will enhance monitoring and documentation surrounding terms and extensions of private funds.	1/19/2016	1/20/2016
9	MEDIUM ●	A transfer agreement, only mentioning the pension portfolio for a Private Equity fund was completed for forty million dollars, but it was intended that ten percent of this investment be made by the insurance portfolio. This fund is in the dissolution phase.	It is not possible to remedy the contract paperwork. Continue with ten percent of the distributions going to the insurance portfolio.			
10	MEDIUM ●	A former investment employee, who separated from KRS on September 30, 2014, did not have his access removed from KRS' custodian's workbench system until December 30, 2014.	Develop procedures to make sure workbench access has been removed for employees immediately after separation from KRS	The Deputy Controller drafted and provided procedures relating to removing employee's access from BNY Mellon's workbench.	12/15/2015	1/19/2016



## KENTUCKY RETIREMENT SYSTEMS

**TO:** Members of the Board

**FROM:** William A. Thielen  
Executive Director

**DATE:** February 18, 2016

**SUBJECT:** KRS Human Resources (HR) Committee Report

The Kentucky Retirement Systems' HR Committee met on Tuesday, February 9, 2016. An oral report of the Committee's actions and recommendations will be presented at the Board meeting. The Committee's agenda and the materials considered are attached to this memorandum.

**RECOMMENDATION:** The Executive Director recommends that the KRS Board of Trustees approve the recommendations and actions taken by the KRS Human Resources Committee.

# MEMORANDUM

**Date:** January 26, 2016

**To:** Connie Davis, Director of Internal Audit

**From:** Karen Roggenkamp, Chief Operations Officer

**Re:** Financial Highlights – Quarter 2 FY 2016

KENTUCKY RETIREMENT SYSTEMS						
Net Position Comparison – Pension Fund (Period Ending December 31, 2015)						
	KERS	KHAZ	CERS	CHAZ	SPRS	TOTAL
FY 16 Net Position (NP)	\$2,116,054,816	\$525,688,968	\$6,107,028,669	\$1,988,082,139	\$227,095,231	\$10,963,949,823
FY 16 End of Period Quarter 1	\$2,327,783,171	\$552,467,903	\$6,440,799,858	\$2,078,201,686	\$247,227,583	\$11,646,480,202
Change in Net Position	(\$211,728,355)	(\$26,778,935)	(\$333,771,189)	(\$90,119,548)	(\$20,132,353)	(\$682,530,379)

Total Pension Net Assets were \$11.65 Billion at the beginning of Quarter 2 (FY) 2016 and decreased by 5.86% to \$10.96 Billion at December 31, 2015. The decrease of \$682.5 Million was comprised of the following:

- Total **Contributions** were \$638 Million (\$11.1M less than same period last year) primarily due to the one-time \$23M Bank of American settlement recorded last year.
- Overall **Investment Income** was negative \$338.7M compared to a negative \$138.8M reported for the 2<sup>nd</sup> Quarter of last year. The major drivers of the decline in Investment Income were:
  - The net appreciation in the Fair Value (FV) of Investments was negative \$378.4M compared to a negative \$242.4M same period last year. The Q2 FY 2016 Pension Investment performance was -1.08% compared to -0.92% for Q2 last year. The decline in FV was a result of unrealized losses experienced across all asset classes with the exception of Real Estate and Private Equity.
  - Although most asset classes experienced less than desirable returns, the equity markets seem to be hit the hardest experiencing losses of over \$300 million, primarily from the Non US markets. The decline in Fixed Income is primarily a result of the movement of assets to the Real Return account. This account was created to enhance the reporting of our investments.
  - Interest and Dividends earned during this reporting period declined by \$44.3M from prior year to \$79.1M. While less income was received across all asset classes, the largest decline was caused by reduced partnership income from Private Equity and Absolute Return investment performance.
  - Derivatives used by individual managers were able to assist in gaining some ground as the hedging investments offset the strong USD.
  - Investment expenses were \$41.2M compared to \$21.0M for the prior reporting period. Although this appears to be an expense increase, the difference is attributable to the reporting transparency change made in January 2015 to record all fees in Investment Expense. This change included fees related to Private Equity investments, which were netted against Investment assets in Q2 of last year. Normalized expenses would be comparable between reporting periods.
- Total **Deductions** were \$982M (an increase of \$33.8M). Benefits/Refunds totaled \$960.7M. The 3.7% increase was comparable to prior years. Administrative expenses were \$21.2M (\$0.6M lower than same period last year).

KENTUCKY RETIREMENT SYSTEMS						
Net Position Comparison – Insurance Fund (Period Ending December 31, 2015)						
	KERS	KHAZ	CERS	CHAZ	SPRS	TOTAL
FY 16 Net Position (NP)	\$648,830,127	\$425,564,484	\$1,860,011,467	\$1,026,927,801	\$158,341,794	\$4,119,675,674
FY 16 End of Period Quarter 1	\$665,637,927	\$439,112,712	\$1,920,944,927	\$1,056,480,313	\$164,714,559	\$4,246,890,439
Change in Net Position	(\$16,807,800)	(\$13,548,228)	(\$60,933,459)	(\$29,552,512)	(\$6,372,765)	(\$127,214,765)

Total Insurance Net Assets were \$4.25 Billion at the beginning of Quarter 2 (FY) 2016 and decreased by 3.0% to \$4.12 Billion for the period ending December 31, 2015. The decrease of \$127.2 Million was comprised of the following:

- Total **Contributions** were \$172.1M for the 2<sup>nd</sup> Quarter compared to \$175.6M for the same period last year. The change was due to a decrease in required employer contributions across all plans.
- Overall **Investment Income** was negative \$123.7M compared to negative \$41.4M for the same period last year. The major drivers of Investment Income were:
  - The net appreciation in the FV of Investments was negative \$139M compared to negative \$75.1M last period. The Q2 Insurance Trust Investment performance was -1.05% compared to -0.87% for Q2 last year. The depreciation in FV of Investments is a result of a declining market across all asset classes with the exception of Real Estate and Private Equity.
  - Although most asset classes experienced less than desirable returns, the equity markets seem to be hit the hardest experiencing losses of over \$120 million, primarily from the Non US markets. The decline in Fixed Income is primarily a result of the movement of assets to the Real Return account. This account was created to enhance the reporting of our investments.
  - Interest and Dividends were \$31.5M (decrease of \$10.2M from the prior year). While less income was received across all asset classes, the largest decline was a result in reduced partnership income from Private Equity and Absolute Return.
  - The Insurance Fund was able to gain some ground through Derivatives used by individual managers as the hedging investments offset the strong USD and the positive performance within the Private Equity Class.
  - Investment expenses were \$16.2M compared to \$8M same reporting period last year. Although this appears to be an expense increase, the difference is attributable to the reporting transparency change in January of 2015 to record all fees in Investment Expense. This change included Private Equity Investment fees, which were netted against Investment assets. Normalized expenses would be comparable between reporting periods.
- Total **Deductions** were \$176.2M (higher by \$12.9M compared to same period last year). Healthcare premiums accounted for the increase.

**KENTUCKY RETIREMENT SYSTEMS**  
**COMBINING STATEMENTS OF NET POSITION**  
**PENSION FUNDS**  
**As of December 31, 2015**  
**(Unaudited)(In Whole Dollars)**

	KERS	CERS	SPRS	CHAZ	KHAZ	2016	2015		
<b>ASSETS</b>									
Cash and Short-term Investments									
Cash Deposits	\$ 2,692,490	\$ 763,800	\$ 164,405	\$ 489,912	\$ 23,469	\$ 4,134,076	\$ 4,027,697	3%	
Short-term Investments	\$ 55,433,587	\$ 157,518,336	\$ 7,215,861	\$ 61,757,283	\$ 23,934,277	\$ 305,859,343	\$ 463,881,809	-34%	1
Total Cash and Short-term Investments	\$ 58,126,076	\$ 158,282,136	\$ 7,380,266	\$ 62,247,195	\$ 23,957,745	\$ 309,993,419	\$ 467,909,506		
<b>RECEIVABLES</b>									
Accounts Receivable	\$ 60,789,791	\$ 41,729,606	\$ 9,969,304	\$ 14,991,428	\$ 5,241,404	\$ 132,721,533	\$ 119,615,626	11%	2
Accounts Receivable - Investments	\$ 61,919,632	\$ 174,061,025	\$ 6,012,219	\$ 56,377,615	\$ 14,777,883	\$ 313,148,375	\$ 685,579,551	-54%	3
Accounts - Alternate Participation				\$ 101,245		\$ 101,245	\$ 107,629	-6%	
Total Receivables	\$ 122,709,423	\$ 215,790,631	\$ 15,981,523	\$ 71,470,289	\$ 20,019,287	\$ 445,971,152	\$ 805,302,806		
<b>INVESTMENTS, AT FAIR VALUE</b>									
Fixed Income	\$ 368,832,970	\$1,014,521,586	\$ 33,440,328	\$ 329,491,154	\$ 86,431,022	\$ 1,832,717,061	\$ 2,745,468,847	-33%	4
Public Equities	\$ 817,062,079	\$2,760,205,444	\$ 97,675,708	\$ 893,335,478	\$ 226,174,489	\$ 4,794,453,198	\$ 5,108,688,421	-6%	
Private Equities	\$ 317,985,103	\$ 626,125,619	\$ 24,597,257	\$ 210,733,984	\$ 60,481,871	\$ 1,239,923,835	\$ 1,314,849,177	-6%	
Derivatives	\$ 2,529,330	\$ 7,021,206	\$ 267,387	\$ 2,261,050	\$ 589,964	\$ 12,668,935	\$ 3,488,925	263%	5
Absolute Return	\$ 216,737,262	\$ 640,216,042	\$ 23,240,055	\$ 202,872,075	\$ 53,714,066	\$ 1,136,779,500	\$ 1,287,384,415	-12%	6
Real Return	\$ 167,906,666	\$ 507,187,432	\$ 17,230,917	\$ 160,259,285	\$ 38,707,259	\$ 891,291,560			
Real Estate	\$ 101,674,358	\$ 335,078,843	\$ 13,111,077	\$ 107,841,497	\$ 30,578,328	\$ 588,284,102	\$ 524,508,937	12%	7
Total Investments, at Fair Value	\$ 1,992,727,768	\$5,890,356,171	\$209,562,730	\$ 1,906,794,522	\$ 496,676,999	\$ 10,496,118,190	\$ 10,984,388,721		
<b>FIXED/INTANGIBLE ASSETS</b>									
Fixed Assets	\$ 824,547	\$ 1,523,100	\$ 8,845	\$ 138,126	\$ 82,433	\$ 2,577,051	\$ 2,569,251	0%	
Intangible Assets	\$ 5,919,584	\$ 9,960,922	\$ 100,005	\$ 826,734	\$ 493,581	\$ 17,300,826	\$ 16,254,290	6%	
Accumulated Depreciation	\$ (773,511)	\$ (1,425,380)	\$ (8,528)	\$ (129,016)	\$ (77,066)	\$ (2,413,501)	\$ (2,370,037)	2%	
Accumulated Amortization	\$ (2,933,934)	\$ (4,869,626)	\$ (58,058)	\$ (407,829)	\$ (235,432)	\$ (8,504,879)	\$ (6,748,633)	26%	8
Total Fixed Assets	\$ 3,036,686	\$ 5,189,017	\$ 42,263	\$ 428,015	\$ 263,516	\$ 8,959,497	\$ 9,704,871	-8%	
Total Assets	\$ 2,176,599,953	\$6,269,617,955	\$232,966,782	\$ 2,040,940,022	\$ 540,917,547	\$ 11,261,042,258	\$ 13,027,979,210		
<b>LIABILITIES</b>									
Accounts Payable	\$ 2,689,138	\$ 4,563,051	\$ 345,169	\$ 1,300,240	\$ 2,115,024	\$ 11,012,621	\$ 9,406,769	17%	9
Investment Accounts Payable	\$ 57,855,999	\$ 158,026,233	\$ 5,526,392	\$ 51,557,643	\$ 13,113,557	\$ 286,079,824	\$ 679,706,037	-58%	10
Total Liabilities	\$ 60,545,137	\$ 162,589,283	\$ 5,871,561	\$ 52,857,883	\$ 15,228,581	\$ 297,092,445	\$ 1,449,786,112		
Total Plan Net Assets	\$ 2,116,054,816	\$6,107,028,672	\$227,095,221	\$ 1,988,082,139	\$ 525,688,966	\$ 10,963,949,813	\$ 11,578,193,098		

**NOTE - Variance Explanation**

- 1 Short Term Investments is primarily comprised of the cash that is on hand with the custodial bank along with any small amounts of cash managers and brokers may have; therefore, the variance is driven by cash flow
- 2 The increase in receivables is primarily due to the generation of sick leave invoices and the increase in Installment Purchase System contracts.
- 3 Variance is a result of transactions activity which is based on each individual manager
- 4 Reduction in Fixed Income is primarily a result of the reallocation of assets with the creation of the Real Return Account for Financial Reporting
- 5 Derivatives include currency forwards/futures as permitted by KRS investment policy. Derivative income increases as the hedging investment offsets the strong USD.
- 6 The reduction in Absolute Return is a result of undesirable market conditions
- 7 Real Estate experienced positive returns resulting in an increase in market value
- 8 Additional Capitalization of intangible assets.
- 9 Increase in Leave Liability due to annual conversion of sick leave at calendar year end.
- 10 Variance is a result of transactions activity which is based on each individual manager

**KENTUCKY RETIREMENT SYSTEMS**  
**COMBINING STATEMENTS OF CHANGES IN NET POSITION**  
**PENSION FUNDS**

For the Six Months Ended December 31, 2015  
(Unaudited)(In Whole Dollars)

	KERS	CERS	SPRS	CHAZ	KHAZ	2016	2015	
<b>ADDITIONS</b>								
Member Contributions	\$ 51,274,912	\$ 64,003,956	\$ 2,697,446	\$ 24,530,529	\$ 7,391,302	\$ 149,898,145	\$ 143,709,579	4%
Employer Contributions	\$ 260,469,467	\$ 139,349,146	\$ 12,934,988	\$ 54,186,336	\$ 12,827,037	\$ 479,766,975	\$ 476,232,780	1%
Pension Spiking Contributions	\$ 171,569	\$ 495,676	\$ 36,305	\$ 711,268	\$ 17,433	\$ 1,432,251	\$ 444,468	222% 1
Bank of America Settlement							\$ 23,000,000	
Health Insurance Contributions (HB1)	\$ 2,350,442	\$ 3,641,361	\$ 57,441	\$ 695,071	\$ 338,336	\$ 7,082,651	\$ 5,891,124	20% 2
Total Contributions	\$ 314,266,390	\$ 207,490,140	\$ 15,726,180	\$ 80,123,205	\$ 20,574,107	\$ 638,180,022	\$ 649,277,952	
<b>INVESTMENT INCOME</b>								
From Investing Activities								
Net Appreciation in FV of Investments	\$ (59,625,921)	\$ (223,113,118)	\$ (8,502,379)	\$ (69,302,393)	\$ (17,849,346)	\$ (378,393,156)	\$ (242,411,720)	56% 3
Interest/Dividends	\$ 13,773,299	\$ 45,405,476	\$ 1,593,508	\$ 14,486,940	\$ 3,819,224	\$ 79,078,448	\$ 123,386,095	-36% 4
Total Investing Activities Income	\$ (45,852,622)	\$ (177,707,643)	\$ (6,908,870)	\$ (54,815,452)	\$ (14,030,121)	\$ (299,314,709)	\$ (119,025,625)	
Investment Expense								
Net Income from Investing Activities	\$ 7,224,837	\$ 23,275,921	\$ 802,959	\$ 7,825,375	\$ 2,080,366	\$ 41,209,457	\$ 21,031,340	96% 5
From Securities Lending Activities								
Securities Lending Income	\$ 378,793	\$ 1,127,003	\$ 38,516	\$ 361,336	\$ 92,039	\$ 1,997,685	\$ 1,523,914	31%
Securities Lending Expense								
Security Lending Borrower Rebates	\$ (2,899)	\$ (116,105)	\$ (5,107)	\$ (37,488)	\$ (9,438)	\$ (171,037)	\$ 83,343	-305%
Security Lending Agent Fee	\$ 57,253	\$ 186,467	\$ 6,543	\$ 59,824	\$ 15,221	\$ 325,308	\$ 178,511	82%
Security Lending Commission Expense								
Net Income from Securities Lending	\$ 324,438	\$ 1,056,640	\$ 37,080	\$ 339,000	\$ 86,255	\$ 1,843,413	\$ 1,262,060	46% 6
Total Investment Income	\$ (52,753,020)	\$ (199,926,923)	\$ (7,674,750)	\$ (62,301,827)	\$ (16,024,232)	\$ (338,680,752)	\$ (138,794,905)	
Total Additions	\$ 261,513,370	\$ 7,563,217	\$ 8,051,430	\$ 17,821,378	\$ 4,549,875	\$ 299,499,270	\$ 510,483,048	
<b>DEDUCTIONS</b>								
Benefit Payments	\$ 459,125,398	\$ 321,362,809	\$ 28,045,937	\$ 105,494,783	\$ 29,399,832	\$ 943,428,758	\$ 908,179,249	4%
Refunds	\$ 6,929,404	\$ 7,493,393	\$ 7,613	\$ 1,479,705	\$ 1,319,267	\$ 17,229,382	\$ 17,974,852	-4%
Administrative Expenses	\$ 7,124,774	\$ 12,373,490	\$ 128,891	\$ 957,501	\$ 604,488	\$ 21,189,145	\$ 21,794,125	-3%
Capital Project Expenses	\$ 62,149	\$ 104,714	\$ 1,342	\$ 8,936	\$ 5,223	\$ 182,364	\$ 239,360	-24% 7
Total Deductions	\$ 473,241,725	\$ 341,334,406	\$ 28,183,783	\$ 107,940,925	\$ 31,328,810	\$ 982,029,649	\$ 948,187,585	
Net Increase(Decrease) in Plan Net Assets	\$ (211,728,355)	\$ (333,771,189)	\$ (20,132,353)	\$ (90,119,548)	\$ (26,778,935)	\$ (682,530,379)	\$ (437,704,538)	
<b>PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>								
Beginning of Period	\$ 2,327,783,171	\$ 6,440,799,858	\$ 247,227,583	\$ 2,078,201,686	\$ 552,467,903	\$ 11,646,480,202	\$ 12,015,897,645	
End of Period	\$ 2,116,054,816	\$ 6,107,028,669	\$ 227,095,231	\$ 1,988,082,139	\$ 525,688,968	\$ 10,963,949,823	\$ 11,578,193,107	

**NOTE - Variance Explanation**

- 1 The increase in Pension Spiking Contributions is due to the continuous generation of Pension Spiking Invoices.
- 2 The increase in Health Insurance Contributions is due to the increase in the number of employees contributing to HIC
- 3 Net Appreciation in FV of investments declined primarily as a result of unrealized losses experienced across all asset classes with the exception of Real Estate and Private Equity.
- 4 A significant reduction in partnership income from Private Equity, Absolute Return and Real Return.
- 5 The increase in Manager Fees is a result of KRS requiring more transparent reporting for Private Equity Managers. In January 2015, KRS began working with Private Equity Managers to begin reporting all fees. The first half of FY 2015 most Private Equity fees were netted giving the appearance of a large increase in fees for the first half of FY 2016.
- 6 Securities Lending Activity varies depending on the demands of the market
- 7 Capital Project expenses continue to decline as the project winds down. Remaining balance is less than \$575,000.

**KENTUCKY RETIREMENT SYSTEMS  
COMBINING STATEMENTS OF NET POSITION  
INSURANCE FUNDS  
As of December 31, 2015  
(Unaudited)(In Whole Dollars)**

	KERS	CERS	SPRS	CHAZ	KHAZ	2016	2015		
<b>ASSETS</b>									
Cash and Short-Term Investments									
Cash Deposits	\$ 328,239	\$ 541,545	\$ 12,632	\$ 30,355	\$ 39,273	\$ 952,044	\$ 486,352	96%	1
Short-term Investments	\$ 22,728,840	\$ 27,418,778	\$ 3,962,461	\$ 23,681,629	\$ 7,874,813	\$ 85,666,521	\$ 192,981,677	-56%	2
Medicare Drug Deposit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 100,064		
Total Cash and Short-term Investments	\$ 23,057,080	\$ 27,960,323	\$ 3,975,093	\$ 23,711,984	\$ 7,914,086	\$ 86,618,564	\$ 193,568,094		
<b>RECEIVABLES</b>									
Accounts Receivable	\$ 13,041,530	\$ 11,269,427	\$ 862,127	\$ 5,842,181	\$ 1,490,103	\$ 32,505,368	\$ 33,040,928	-2%	
Investment Accounts Receivable	\$ 23,228,766	\$ 65,303,209	\$ 5,532,115	\$ 36,058,726	\$ 14,979,558	\$ 145,102,373	\$ 277,769,075	-48%	3
Total Receivables	\$ 36,270,296	\$ 76,572,635	\$ 6,394,241	\$ 41,900,907	\$ 16,469,662	\$ 177,607,741	\$ 310,810,004		
<b>INVESTMENTS, AT FAIR VALUE</b>									
Fixed Income	\$ 173,462,410	\$ 484,065,935	\$ 40,667,731	\$ 267,526,043	\$ 110,748,691	\$ 1,076,470,810	\$ 1,273,625,411	-15%	4
Public Equities	\$ 254,044,076	\$ 704,077,615	\$ 59,058,111	\$ 381,498,313	\$ 168,287,855	\$ 1,566,965,971	\$ 1,646,699,035	-5%	
Private Equities	\$ 36,021,382	\$ 179,292,173	\$ 15,795,011	\$ 100,154,664	\$ 34,208,578	\$ 365,471,808	\$ 323,112,061	13%	5
Derivatives	\$ 734,416	\$ 2,133,423	\$ 184,898	\$ 1,160,190	\$ 495,707	\$ 4,708,633	\$ 1,372,934	243%	6
Absolute Return	\$ 67,941,729	\$ 192,840,944	\$ 16,905,168	\$ 108,013,274	\$ 45,086,192	\$ 430,787,307	\$ 439,014,351	-2%	
Real Return	\$ 47,039,208	\$ 153,939,904	\$ 11,672,968	\$ 81,744,756	\$ 32,916,749	\$ 327,313,585			
Real Estate	\$ 32,978,073	\$ 100,492,718	\$ 8,944,031	\$ 55,013,296	\$ 23,803,554	\$ 221,231,672	\$ 196,545,961	13%	7
Total Investments, at Fair Value	\$ 612,221,295	\$ 1,816,842,713	\$ 153,227,917	\$ 995,110,536	\$ 415,547,325	\$ 3,992,949,786	\$ 3,880,369,752		
Total Assets	\$ 671,548,670	\$ 1,921,375,671	\$ 163,597,251	\$ 1,060,723,426	\$ 439,931,073	\$ 4,257,176,091	\$ 4,630,992,069	-8%	
<b>LIABILITIES</b>									
Accounts Payable	\$ -	\$ 7,683	\$ -	\$ 2,215	\$ 3,927	\$ 13,825	\$ 24,331	-43%	8
Investment Accounts Payable	\$ 22,718,533	\$ 61,356,520	\$ 5,255,458	\$ 33,793,409	\$ 14,362,661	\$ 137,486,582	\$ 258,871,291	-47%	9
Total Liabilities	\$ 22,718,533	\$ 61,364,203	\$ 5,255,458	\$ 33,795,625	\$ 14,366,589	\$ 137,500,407	\$ 505,139,842		
Total Plan Net Assets	\$ 648,830,137	\$ 1,860,011,468	\$ 158,341,793	\$ 1,026,927,801	\$ 425,564,484	\$ 4,119,675,684	\$ 4,125,852,227		

**NOTE - Variance Explanation**

- 1 Variance is a result of continuous fluctuation of deposits and transactions that flow through the cash account.
- 2 Short Term Investments is primarily comprised of the cash that is on hand with the custodial bank along with any small amounts of cash managers and brokers may have; therefore, the variance is driven by cash flow
- 3 Variance is a result of transactions activity which is based on each individual manager
- 4 Reduction in Fixed Income is primarily a result of the reallocation of assets with the creation of the Real Return Account for Financial Reporting
- 5 The increase is due to positive performance and additional funding of managers.
- 6 Derivatives include currency forwards/futures as permitted by KRS investment policy. Derivative income increases as the hedging investment offsets the strong USD
- 7 Real Estate experienced positive returns resulting in an increase in market value.
- 8 Reduction due to change in processing of Insurance Admin Fees.
- 9 Variance is a result of transactions activity which is based on each individual manager

**KENTUCKY RETIREMENT SYSTEMS**  
**COMBINING STATEMENTS OF CHANGES IN NET POSITION**  
**INSURANCE FUNDS**  
**For the Six Months Ended December 31, 2015**  
**(Unaudited)(In Whole Dollars)**

	KERS	CERS	SPRS	CHAZ	KHAZ	2016	2015	
<b>ADDITIONS</b>								
Employer Contributions	\$ 66,758,713	\$ 53,067,053	\$ 5,258,513	\$ 33,980,057	\$ 7,854,814	\$ 166,919,149	\$ 170,369,002	-2%
Insurance Premiums	\$ 125,414	\$ 318,286	\$ 235	\$ 4,051	\$ 7,545	\$ 455,531	\$ 398,016	14%
Retired Reemployed Healthcare	\$ 1,926,329	\$ 1,934,091	\$ 4,251	\$ 438,834	\$ 399,277	\$ 4,702,782	\$ 4,841,066	-3%
<b>Total Contributions</b>	<b>\$ 68,810,456</b>	<b>\$ 55,319,430</b>	<b>\$ 5,262,999</b>	<b>\$ 34,422,941</b>	<b>\$ 8,261,636</b>	<b>\$ 172,077,461</b>	<b>\$ 175,608,083</b>	
<b>INVESTMENT INCOME</b>								
From Investing Activities								
Net Appreciation in FV of Investments	\$ (24,635,109)	\$ (61,546,101)	\$ (5,160,359)	\$ (32,843,292)	\$ (14,803,213)	\$ (138,988,074)	\$ (75,097,714)	85%
Interest/Dividends	\$ 5,070,126	\$ 14,216,588	\$ 1,190,211	\$ 7,718,363	\$ 3,293,400	\$ 31,488,688	\$ 41,643,468	-24%
<b>Total From Investing Activities</b>	<b>\$ (19,564,983)</b>	<b>\$ (47,329,513)</b>	<b>\$ (3,970,148)</b>	<b>\$ (25,124,929)</b>	<b>\$ (11,509,813)</b>	<b>\$ (107,499,385)</b>	<b>\$ (33,454,246)</b>	
Investment Expense	\$ 1,597,524	\$ 7,918,128	\$ 657,619	\$ 4,428,276	\$ 1,553,401	\$ 16,154,948	\$ 7,975,674	103%
<b>Net Income from Investing Activities</b>	<b>\$ (21,162,507)</b>	<b>\$ (55,247,641)</b>	<b>\$ (4,627,767)</b>	<b>\$ (29,553,205)</b>	<b>\$ (13,063,215)</b>	<b>\$ (123,654,333)</b>	<b>\$ (41,429,920)</b>	
From Securities Lending								
Securities Lending Income	\$ 102,150	\$ 293,197	\$ 24,079	\$ 160,275	\$ 67,406	\$ 647,107	\$ 490,274	
Securities Lending Expense								
Security Lending Borrower Rebates	\$ (3,992)	\$ (9,245)	\$ (1,074)	\$ (4,731)	\$ (2,549)	\$ (21,590)	\$ (179,017)	
Security Lending Agent Fees	\$ 15,921	\$ 45,365	\$ 3,773	\$ 24,751	\$ 10,494	\$ 100,305	\$ 56,269	
<b>Net Income from Securities Lending</b>	<b>\$ 90,221</b>	<b>\$ 257,077</b>	<b>\$ 21,379</b>	<b>\$ 140,256</b>	<b>\$ 59,460</b>	<b>\$ 568,393</b>	<b>\$ 613,022</b>	<b>-7%</b>
<b>Total Net Income from Investments</b>	<b>\$ (21,072,286)</b>	<b>\$ (54,990,564)</b>	<b>\$ (4,606,387)</b>	<b>\$ (29,412,949)</b>	<b>\$ (13,003,754)</b>	<b>\$ (123,085,941)</b>	<b>\$ (40,816,898)</b>	
<b>Total Additions</b>	<b>\$ 47,738,170</b>	<b>\$ 328,866</b>	<b>\$ 656,611</b>	<b>\$ 5,009,993</b>	<b>\$ (4,742,119)</b>	<b>\$ 48,991,521</b>	<b>\$ 134,791,186</b>	
<b>DEDUCTIONS</b>								
Healthcare Premiums Subsidies	\$ 63,067,087	\$ 58,754,283	\$ 6,986,940	\$ 34,333,018	\$ 8,742,613	\$ 171,883,941	\$ 159,821,248	8%
Administrative Expense	\$ 346,237	\$ 299,910	\$ 26,871	\$ 142,928	\$ 40,649	\$ 856,595		
Self Funded Healthcare Costs	\$ 1,129,688	\$ 2,202,584	\$ 15,523	\$ 86,338	\$ 22,713	\$ 3,456,845	\$ 3,509,300	-1%
Excise Tax Insurance	\$ 2,958	\$ 5,549	\$ 42	\$ 220	\$ 135	\$ 8,904	\$ 9,194	-3%
<b>Total Deductions</b>	<b>\$ 64,545,970</b>	<b>\$ 61,262,325</b>	<b>\$ 7,029,376</b>	<b>\$ 34,562,505</b>	<b>\$ 8,806,109</b>	<b>\$ 176,206,285</b>	<b>\$ 163,339,742</b>	
<b>Net Increase(Decrease) in Plan Net Assets</b>	<b>\$ (16,807,800)</b>	<b>\$ (60,933,459)</b>	<b>\$ (6,372,765)</b>	<b>\$ (29,552,512)</b>	<b>\$ (13,548,228)</b>	<b>\$ (127,214,765)</b>	<b>\$ (28,548,556)</b>	
<b>NET PLAN ASSETS HELD IN TRUST</b>								
<b>INSURANCE BENEFITS</b>								
Beginning of Period	\$665,637,927	\$1,920,944,927	\$164,714,559	\$ 1,056,480,313	\$ 439,112,712	\$ 4,246,890,439	\$ 4,154,400,773	
End of Period	\$648,830,127	\$1,860,011,467	\$158,341,794	\$ 1,026,927,801	\$ 425,564,484	\$ 4,119,675,674	\$ 4,125,852,217	

**NOTE - Variance Explanation**

- 1 The increase in Insurance Premiums is due to an Increase in retirees
- 2 Net Appreciation in FV of Investments declined primarily as a result of unrealized losses experienced across all asset classes with the exception of Real Estate and Private Equity.
- 3 A significant reduction in partnership income from Private Equity, Absolute Return and Real Return.
- 4 The increase in Manager Fees is a result of KRS requiring more transparent reporting for Private Equity Managers. In January 2015, KRS began working with Private Equity Managers to begin reporting all fees. The first half of FY 2015 most Private Equity fees were netted giving the appearance of a large increase in fees for the first half of FY 2016.



## KENTUCKY RETIREMENT SYSTEMS

William A. Thielen, Executive Director

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### MEMORANDUM

**Date:** January 28, 2016

**To:** Mr. Mike Cherry, Chair  
Audit Committee of the Board of Trustees

**From:** Ann M. Case, CGAP, CRMA  
Deputy Controller

**Re:** **Financial Analysis of the Pension Fund**

Attached are three spreadsheets that have been included to better assist the board in understanding the funding obstacles that KRS faces. The following key points are noted:

- Asset Trends – All plans are experiencing a decline in assets due to unrealized losses driven by the current market conditions.
- Cash inflows from all plans have been impacted due to lower interest and dividend payments at the end of December 2015.
- Cash outflows are increasing in the 3% to 3.7% range for benefits payments related to Tier 1 retirements.
- KERS and SPRS cash flow projections for the remainder of FY 2016 will become more challenging if market conditions continue their current trend.

**KENTUCKY RETIREMENT SYSTEMS**  
**Asset Trends by Plan**  
**Pension Fund**  
**As of December 31, 2015 - 2014**

	12/31/2015	6/30/2015	12/31/2015	6/30/2015	12/31/2015	6/30/2015	12/31/2015	6/30/2015	12/31/2015	6/30/2015
	KERS		KHAZ		CERS		CHAZ		SPRS	
<b>ASSETS</b>										
Cash Deposits	2,692,490	1,738,743	23,469	161,757	763,800	1,556,216	489,912	582,717	164,405	215,325
Short-term Investments	55,433,587	97,851,979	23,934,277	21,560,221	157,518,336	196,484,748	61,757,283	71,674,928	7,215,861	7,795,849
Fixed Income	368,832,970	548,573,814	86,431,022	124,249,131	1,014,521,586	1,478,773,744	329,491,154	477,676,764	33,440,328	51,149,984
Public Equities	817,062,079	881,431,919	226,174,489	248,062,305	2,760,205,444	2,999,507,621	893,335,478	961,709,810	97,675,708	110,380,734
Private Equities	317,985,103	343,613,089	60,481,871	62,498,454	626,125,619	640,198,509	210,733,984	212,362,703	24,597,257	26,899,690
Derivatives	2,529,330	1,241,318	589,964	286,257	7,021,206	3,405,087	2,261,050	1,095,152	267,387	128,419
Absolute Return	216,737,262	266,391,289	53,714,066	59,462,803	640,216,042	705,646,947	202,872,075	223,749,315	23,240,055	26,915,152
Real Return	167,906,666		38,707,259		507,187,432		160,259,285		17,230,917	
Real Estate	101,674,358	113,323,341	30,578,328	31,744,951	335,078,843	348,220,317	107,841,497	112,134,290	13,111,077	13,754,295
Receivables	122,709,423	128,800,955	20,019,287	19,633,081	215,790,631	225,332,529	71,470,289	69,394,346	15,981,523	16,033,918
Payables	(60,545,137)	(58,547,208)	(15,228,581)	(15,482,564)	(162,589,283)	(164,070,941)	(52,857,883)	(52,653,677)	(5,871,561)	(6,094,817)
<b>Total Assets at Fair Value</b>	<b>2,113,018,130</b>	<b>2,324,419,240</b>	<b>525,425,450</b>	<b>552,176,396</b>	<b>6,101,839,655</b>	<b>6,435,054,777</b>	<b>1,987,654,123</b>	<b>2,077,726,348</b>	<b>227,052,958</b>	<b>247,178,549</b>
<b>Change in Assets from Prior Qtr</b>	<b>(211,401,109)</b>	<b>(23,918,072)</b>	<b>(26,750,946)</b>	<b>13,556,203</b>	<b>(333,215,122)</b>	<b>138,896,331</b>	<b>(90,072,224)</b>	<b>51,444,793</b>	<b>(20,125,591)</b>	<b>4,277,827</b>
<b>Net Depreciation/Appreciation</b>	<b>(59,625,921)</b>	<b>(4,791,213)</b>	<b>(17,849,346)</b>	<b>(1,262,603)</b>	<b>(203,113,118)</b>	<b>(7,218,252)</b>	<b>(69,302,393)</b>	<b>(256,416)</b>	<b>(8,502,379)</b>	<b>(1,302,828)</b>
<b>Decline not related to Market</b>	<b>(151,775,188)</b>	<b>(19,126,859)</b>	<b>(8,901,600)</b>	<b>14,818,806</b>	<b>(130,102,004)</b>	<b>146,114,583</b>	<b>(20,769,831)</b>	<b>51,701,209</b>	<b>(11,623,212)</b>	<b>5,580,655</b>

**Asset Concentration**

	12/31/2015	6/30/2015	12/31/2015	6/30/2015	12/31/2015	6/30/2015	12/31/2015	6/30/2015	12/31/2015	6/30/2015
	KERS		KHAZ		CERS		CHAZ		SPRS	
Cash Deposits	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
Short-term Investments	2.6%	4.2%	4.6%	3.9%	2.6%	3.1%	3.1%	3.4%	3.2%	3.2%
Fixed Income	17.5%	23.6%	16.4%	22.5%	16.6%	23.0%	16.6%	23.0%	14.7%	20.7%
Public Equities	38.7%	37.9%	43.0%	44.9%	45.2%	46.6%	44.9%	46.3%	43.0%	44.7%
Private Equities	15.0%	14.8%	11.5%	11.3%	10.3%	9.9%	10.6%	10.2%	10.8%	10.9%
Derivatives	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Absolute Return	10.3%	11.5%	10.2%	10.8%	10.5%	11.0%	10.2%	10.8%	10.2%	10.9%
Real Return	7.9%	0.0%	7.4%	0.0%	8.3%	0.0%	8.1%	0.0%	7.6%	0.0%
Real Estate	4.8%	4.9%	5.8%	5.7%	5.5%	5.4%	5.4%	5.4%	5.8%	5.6%
	97%	97%	99%	99%	99%	99%	99%	99%	96%	96%

**KENTUCKY RETIREMENT SYSTEMS**

**Cash Flow**

**Pension Fund**

**As of December 31, 2015 - 2014**

	KERS		KHAZ		CERS		CHAZ		SPRS	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014	12/31/2015	12/31/2014	12/31/2015	12/31/2014	12/31/2015	12/31/2014
<b>INFLOWS</b>										
<i>Member Contributions</i>	\$51,274,912	\$50,376,712	\$7,391,302	\$6,226,671	\$64,003,956	\$61,946,193	\$24,530,529	\$22,895,731	\$2,697,446	\$2,264,272
<i>Employer Contributions</i>	\$260,469,467	\$257,949,755	\$12,827,037	\$11,060,920	\$139,349,146	\$140,454,441	\$54,186,336	\$53,696,274	\$12,934,988	\$13,071,391
<i>Pension Spiking Contributions</i>	\$171,569	\$73,476	\$17,433	\$4,246	\$495,676	\$276,426	\$711,268	\$32,126	\$36,305	\$58,194
<i>Bank of America Settlement</i>		\$8,442,347		\$767,141		\$10,280,391		\$2,865,365		\$644,756
<i>Health Insurance Contributions (HB1)</i>	\$2,350,442	\$2,038,971	\$338,336	\$262,800	\$3,641,361	\$3,072,403	\$695,071	\$471,680	\$57,441	\$45,270
<i>Interest/Dividends</i>	\$13,773,299	\$27,932,972	\$3,819,224	\$5,711,029	\$45,405,476	\$65,975,212	\$14,486,940	\$21,087,360	\$1,593,508	\$2,679,522
<i>Securities Lending Income</i>	\$378,793	\$304,089	\$92,039	\$69,520	\$1,127,003	\$846,799	\$361,336	\$273,025	\$38,516	\$30,480
<b>Total Inflows</b>	<b>\$328,418,482</b>	<b>\$347,118,322</b>	<b>\$24,485,370</b>	<b>\$24,102,327</b>	<b>\$254,022,618</b>	<b>\$282,851,865</b>	<b>\$94,971,481</b>	<b>\$101,321,561</b>	<b>\$17,358,204</b>	<b>\$18,793,886</b>
<b>OUTFLOWS</b>										
<i>Investment Expense</i>	\$7,224,837	\$3,675,111	\$2,080,366	\$1,050,112	\$23,275,921	\$11,999,150	\$7,825,375	\$3,853,748	\$802,959	\$453,219
<i>Securities Lending Borrower Rebates</i>	(\$2,899)	\$51,821	(\$9,438)	\$2,906	(\$116,105)	\$19,022	(\$37,488)	\$8,377	(\$5,107)	\$1,217
<i>Security Lending Agent Fee</i>	\$57,253	\$29,827	\$15,221	\$8,229	\$186,467	\$103,737	\$59,824	\$33,147	\$6,543	\$3,572
<i>Benefit Payments</i>	\$459,125,398	\$450,693,314	\$29,399,832	\$28,110,963	\$321,362,809	\$303,458,372	\$105,494,783	\$98,636,890	\$28,045,937	\$27,279,711
<i>Refunds</i>	\$6,929,404	\$7,648,581	\$1,319,267	\$1,614,974	\$7,493,393	\$7,208,266	\$1,479,705	\$1,450,841	\$7,613	\$52,190
<i>Administrative Expenses</i>	\$7,124,774	\$7,443,793	\$604,488	\$625,564	\$12,373,490	\$12,482,579	\$957,501	\$1,067,837	\$128,891	\$174,353
<i>Capital Project Expenses</i>	\$62,149	\$82,340	\$5,223	\$6,702	\$104,714	\$136,675	\$8,936	\$11,729	\$1,342	\$1,915
<b>Total Outflows</b>	<b>\$480,520,916</b>	<b>\$469,624,786</b>	<b>\$33,414,960</b>	<b>\$31,419,450</b>	<b>\$364,680,689</b>	<b>\$335,407,800</b>	<b>\$115,788,635</b>	<b>\$105,062,567</b>	<b>\$28,988,178</b>	<b>\$27,966,177</b>
<b>Net Cash Flows</b>	<b>(\$152,102,434)</b>	<b>(\$122,506,464)</b>	<b>(\$8,929,589)</b>	<b>(\$7,317,122)</b>	<b>(\$110,658,070)</b>	<b>(\$52,555,935)</b>	<b>(\$20,817,155)</b>	<b>(\$3,741,006)</b>	<b>(\$11,629,974)</b>	<b>(\$9,172,291)</b>

**KENTUCKY RETIREMENT SYSTEMS**  
**Cash Flow Projections**  
**Pension Fund**

	KERS		KHAZ		CERS		CHAZ		SPRS	
	6/30/2016	6/30/2015	6/30/2016	6/30/2015	6/30/2016	6/30/2015	6/30/2016	6/30/2015	6/30/2016	6/30/2015
	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual
<b>INFLOWS</b>										
Member Contributions	102,549,824	100,424,471	14,782,604	12,669,450	128,007,912	133,636,499	49,061,058	46,609,087	5,394,892	5,150,288
Employer Contributions	520,938,934	520,948,087	25,654,074	28,373,752	278,698,293	297,715,408	108,372,673	107,513,986	25,869,975	31,443,883
Pension Spiking Contributions	343,139	742,687	34,865	162,137	991,353	850,142	1,422,536	556,690	72,610	545,869
Bank of America Settlement	0	8,442,347	0	767,141	0	10,280,391	0	2,865,365	0	644,756
Health Insurance Contributions (HB1)	4,700,883	4,181,046	676,671	537,228	7,282,723	6,674,325	1,390,143	1,082,700	114,882	94,220
Interest/Dividends	27,546,598	65,596,523	7,638,449	13,897,828	90,810,951	160,823,606	28,973,881	51,237,147	3,187,017	6,379,609
Securities Lending Income	757,585	592,299	184,078	140,054	2,254,005	1,712,510	722,671	550,322	77,031	60,678
<b>Total Inflows</b>	<b>656,836,963</b>	<b>700,927,460</b>	<b>48,970,741</b>	<b>56,547,589</b>	<b>508,045,237</b>	<b>611,692,881</b>	<b>189,942,961</b>	<b>210,415,298</b>	<b>34,716,407</b>	<b>44,319,304</b>
<b>OUTFLOWS</b>										
Investment Expense	14,449,673	16,710,892	4,160,731	4,063,235	46,551,841	44,636,404	15,650,749	14,387,324	1,605,918	1,707,341
Securities Lending Borrower Rebates	(5,798)	40,577	(18,875)	(9,915)	(232,209)	(143,132)	(74,976)	(42,010)	(10,214)	(4,542)
Security Lending Agent Fee	114,506	75,897	30,443	20,640	372,934	256,776	119,647	82,095	13,086	8,993
Benefit Payments	918,250,795	905,790,711	58,799,664	56,773,173	642,725,617	615,334,770	210,989,567	200,133,703	56,091,873	54,765,255
Refunds	13,858,809	13,552,144	2,638,534	2,609,464	14,986,786	13,523,666	2,959,410	3,110,537	15,225	85,000
Administrative Expenses	14,249,547	10,473,878	1,208,977	844,208	24,746,981	18,212,642	1,915,003	1,287,827	257,783	201,108
Capital Project Expenses	124,299		10,446		209,428		17,872		2,684	
<b>Total Outflows</b>	<b>961,041,832</b>	<b>946,644,100</b>	<b>66,829,919</b>	<b>64,300,804</b>	<b>729,361,378</b>	<b>691,821,126</b>	<b>231,577,271</b>	<b>218,959,477</b>	<b>57,976,356</b>	<b>56,763,155</b>
<b>Net Cash Flows</b>	<b>(304,204,869)</b>	<b>(245,716,640)</b>	<b>(17,859,179)</b>	<b>(7,753,216)</b>	<b>(221,316,141)</b>	<b>(80,128,245)</b>	<b>(41,634,310)</b>	<b>(8,544,179)</b>	<b>(23,259,948)</b>	<b>(12,443,851)</b>



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## KENTUCKY RETIREMENT SYSTEMS INVESTMENTS

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**TO:** Kentucky Retirement System Board of Trustees

**FROM:** David Peden, Chief Investment Officer

**DATE:** February 18, 2016

**SUBJECT:** Investment Committee Quarterly Report

The Investment Committee held its regularly scheduled meeting on February 2, 2016. The purpose of the meeting was to evaluate investment activities, program structure, management, controls, and performance results of the Pension and Insurance Funds, for the quarter ending December 31, 2015, along with various other subjects.

The meeting began with approval of the minutes for the previous Investment Committee meeting held on November 4, 2015.

Erica Bradley, Compliance Officer, presented the Quarterly Compliance Report. It was noted that the asset allocations were in a state of transition in the month of December 2015 as the investment team moved assets to the January 1, 2016 asset allocation.

The Management Update was given by David Peden, CIO, which included a review of some of the standard quarterly reports. These reports included the: Monthly Performance Update, Investment Division Budget Report, the quarterly Manager Meeting and Related Expense Tracking Report, the Internally Managed Portfolio Asset Report, Internally Managed Portfolio Transactions Report, Securities Lending Report, Domestic Equity Commissions Report, Global Equity Commissions Report, and the Securities Litigation Report were provided for informational purposes.

The Standing Quarterly Committee Topics, Potential Future Topics List, and an overview of the supplied articles of interest were reviewed. Questions were encouraged and addressed throughout the reports.

KRS Investment Staff, Prisma Capital Partners, and consultant Albourne recommended an initial investment of approximately \$20 million to DSAM+ and an initial \$35 million each to DB LiquidAlts H2O Force 10 and Myriad Asset Management. This recommendation was approved by the KRS Investment Committee. All five pension systems and all five insurance systems will participate in this investment. The investment managers in the marketing and due diligence process used no placement agents.

Prisma Capital Partners gave a review of the trial period of the strategic partnership between KRS and Prisma. KRS Staff also gave a review of this relationship and recommended the KRS Investment Committee continue the relationship on an official basis. This recommendation was approved by the Investment Committee. KRS Staff also recommended unwinding the fund of hedge funds managed by Blackstone and this recommendation was approved by the Investment Committee.

KRS Investment Staff and consultant ORG recommended an initial investment of approximately 50 million EURO to Patron Capital V, L.P. All five pension systems and all five insurance systems would receive allocations to this investment. The investment managers in the marketing and due diligence process used no placement agents. No action was taken on the recommendation and the investment was referred by the Investment Committee to full Board for consideration.

KRS Investment Staff and consultant PCA recommended a commitment of \$50 million to Green Equity Partners VII, L.P. Pension systems KERS Hazardous, CERS, and CERS Hazardous and all five insurance systems will participate in this investment. The investment managers in the marketing and due diligence process used no placement agents. This investment recommendation was approved by the investment committee.

KRS Investment Staff and consultant PCA recommended a commitment of \$50 million to Vista Equity Partners VI, L.P. Pension systems KERS Hazardous, CERS, and CERS Hazardous and all five insurance systems will participate in this investment. The investment managers in the marketing and due diligence process used no placement agents. This investment recommendation was approved by the investment committee.

Staff and Consultant RV Kuhns presented a recommendation for a new U.S. equity core position as the investment team moves to a core/satellite structure from a style box structure. The newly recommended core position is the Scientific Beta U.S. Multi-Beta Diversified Multi-Strategy Index and will replace the existing internally managed S&P 500 portfolio. The new strategy will also be internally managed by staff and is not an external money manager. The conversion from the S&P 500 to the Scientific Beta strategy will be in stages and the speed of conversion will be dictated by U.S. equity market conditions. This new strategy was approved by the investment committee.

Erica Bradley, Compliance Officer, presented the results of an Internal Performance Audit and a separate Internal Financial Review. This was for information purposes only and no action was taken.

Karen Roggenkamp, COO, and Ann Case, Deputy Controller, presented reporting on investment fees and expenses. Ann also reported a financial trend and cash flow analysis. This was for informational purposes only and no action was taken.

***Please see the next page for a summary of the Pension and Insurance performance information ending December 31, 2015.***

<b>Pension Funds Performance Overview</b>								
<b>Rates of Return (%) as of December 31, 2015</b>								
	<b>One Year</b>		<b>Three Years</b>		<b>Five Years</b>		<b>Ten Years</b>	
	<b>Fund</b>	<b>Index</b>	<b>Fund</b>	<b>Index</b>	<b>Fund</b>	<b>Index</b>	<b>Fund</b>	<b>Index</b>
<b>Equity</b>	-2.94	-3.48	7.38	7.03	5.88	5.97	4.84	4.59
<b>Fixed Income</b>	0.50	0.43	1.94	1.51	4.49	3.60	4.85	4.63
<b>Private Equity</b>	11.15	11.15	14.13	14.13	13.44	14.26	8.55	9.69
<b>Real Estate</b>	8.89	13.86	8.97	12.39	10.07	12.95	6.01	5.73
<b>Absolute Return</b>	1.70	0.83	6.12	4.67	5.84	2.90	N/A	
<b>Real Return</b>	-5.96	-4.10	-2.45	0.34	N/A		N/A	
<b>Cash Equivalents</b>	0.21	0.03	0.34	0.04	0.32	0.05	1.75	1.17
<b>Total Fund</b>	-0.02	0.64	5.81	6.54	5.84	6.29	5.17	5.51

<b>Insurance Funds Performance Overview</b>								
<b>Rates of Return (%) as of December 31, 2015</b>								
	<b>One Year</b>		<b>Three Years</b>		<b>Five Years</b>		<b>Ten Years</b>	
	<b>Fund</b>	<b>Index</b>	<b>Fund</b>	<b>Index</b>	<b>Fund</b>	<b>Index</b>	<b>Fund</b>	<b>Index</b>
<b>Equity</b>	-2.81	-3.36	7.47	6.95	5.76	5.99	4.57	4.36
<b>Fixed Income</b>	0.53	0.43	1.32	1.51	4.20	3.96	4.87	4.64
<b>Private Equity</b>	15.92	15.92	16.59	16.59	14.74	14.32	9.16	9.04
<b>Real Estate</b>	8.99	13.86	8.43	12.39	10.05	12.95	N/A	
<b>Absolute Return</b>	1.80	0.83	6.11	4.67	5.86	2.90	N/A	
<b>Real Return</b>	-6.13	-3.69	-2.52	0.53	N/A		N/A	
<b>Cash Equivalents</b>	0.21	0.03	0.22	0.04	0.28	0.05	1.55	1.17
<b>Total Fund</b>	-0.12	1.28	5.42	6.79	5.16	6.54	4.41	5.05

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**RECOMMENDATION:** The Board is requested to ratify the actions of the Investment Committee.



# **Real Estate Recommendation**

## **European Real Estate**

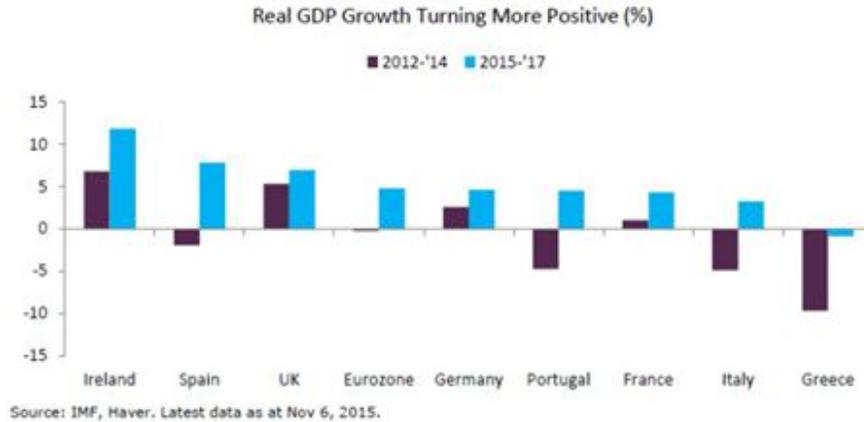
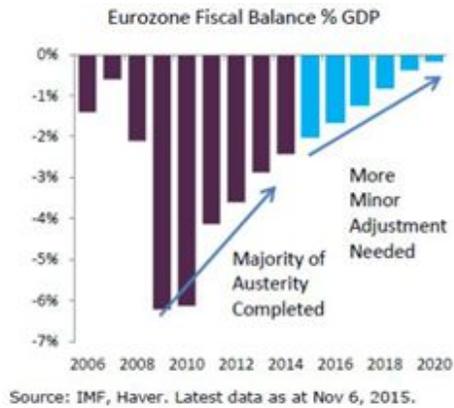
**. . .from Idea to Investment**

**The Due Diligence Process**

# Investment idea or thesis is identified . . .

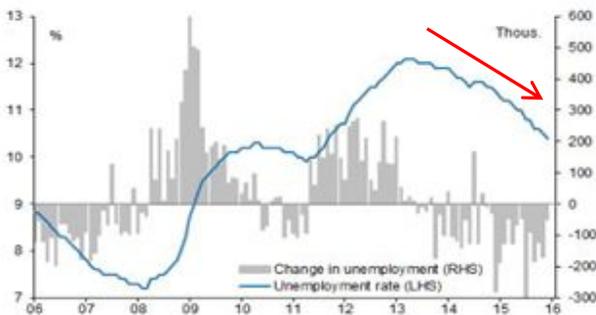


Europe's fiscal deficits have been largely corrected . . .



**Euro Area Unemployment Rate**

As the ECB eases, Euro denominated assets will be attractive . . .





**STEP 1**

**Build a case against or confirm the opportunity to research**

- ✓ **Why European Real Estate?**
- ✓ **Macro considerations**
  - Economy, Geo-political, Industry data
- ✓ **Historical information – Timing, Potential Returns, etc.**
  - Asset class returns, correlations, risk factors
- ✓ **Engage asset class consultant to research thesis**
  - Industry search activity, are other plans looking?





Thesis confirmed as viable opportunity...



**Work with consultant to identify list of potential partners/managers for investment**



- ✓ ORG database / KRS direct contacts and meetings
- ✓ Identify and evaluate both Quantitative and Qualitative factors
  - Capacity (accepting new \$?), Longevity, Reputation, Size – AUM, Principals, etc.



**Start a file for each potential partner – Intro calls**

- ✓ Gather information – Fund books, websites, press releases, etc.
- ✓ Research past Funds/Investments and firm data – ACRES system
- ✓ Schedule introductory calls or update calls with KRS & ORG staff
  - Confirm conviction of thesis – validate or contradict
  - Pose consistent series of questions to identify similarities/differences
  - Seek to identify issues that may eliminate from consideration – departures, legal, etc.
- ✓ Ask managers to begin flow of information to KRS
  - Transactions, news, white papers, industry info, country/region
  - Pose consistent series of questions to identify similarities/differences



**First eliminations\* made, potential partners advance...**

\* "Key-man" risk, Information flow, ORG issues, Reputational risk", etc

#### **STEP 4**

### **Schedule in-person meetings – KRS and/or ORG**

- ✓ **Key related professionals – not just marketing**
- ✓ **Conduct in-depth discussions about proposed mandate**
  - Macro, Regional, Geo-political
- ✓ **Confirm conviction of thesis**
- ✓ **Conduct in-depth discussions about firm**
  - Firm, team, systems, process, experience, history, character, etc.
- ✓ **Schedule or accept requests for additional meetings**
  - Conduct "on-site" manager reviews, either KRS or ORG staff

#### **STEP 5**

### **Reduce list to "Finalists" – Conduct presentations**

- ✓ **Request written response to specific "Key Issues"**
- ✓ **Conduct final presentations with both KRS and ORG staff**
- ✓ **Open discussion construct**
  - Random, mandate-related topics initiated
  - Recent news, industry information, asset class developments
  - Confirmation of all information gathered in process – opportunity to add or amend



## STEP 6

### KRS and ORG conduct thorough review of FINALISTS

- ✓ All information is up for review – Quantitative and Qualitative
- ✓ Extensive discussion and debate – no “ownership” – why? why not?
- ✓ Verification of all relevant facts and new developments, if any
- ✓ Selection of manager for mandate



### Patron Capital selected as manager of European Real Estate mandate

- ✓ Manager notified of selection – pending board approval
- ✓ Confirmation of capacity, closing dates, fund terms
- ✓ Preparation begins for Board presentation



**PATRON**  
CAPITAL PARTNERS



## IPE Real Estate Top 100 Investment Management Survey

NOVEMBER/DECEMBER 2015 (MAGAZINE)

*The Top 100 Investment Management Survey provides a snapshot of an evolving global industry. The table below shows the largest 100 real estate managers by assets under management.*

#	Company	Total RE AUM 30/06/15 (€m)
52	Patron Capital	10,478

### Opportunistic – Global

Company	€m
1 Brookfield AM	59,770
2 Starwood Capital Group	26,028
3 Hines	22,813
4 Morgan Stanley Real Estate	13,050
5 Patron Capital	10,478
6 Walton Street Capital	7,731
7 BlackRock	7,588
8 Oaktree Capital Mngt.	6,301
9 Gaw Capital Partners	6,183
10 CBRE Global Inv.	5,800

### Opportunistic – Europe

Company	€m
1 Patron Capital	10,478
2 Starwood Capital Group	6,202
3 Hines	5,946
4 Morgan Stanley Real Estate	5,114
5 BMO Real Estate Partners	2,156
6 Aberdeen AM	1,866
7 Savills IM	1,231
8 AEW North America & Asia	1,102
9 Brookfield AM	1,059
10 Legal & General Property	1,048

## Patron Capital Wins Professional Pensions' UK & European Opportunistic Property Manager of the Year

Patron Capital, the pan-European institutional investor focused on property-backed investments, has won the UK & European Opportunistic Property Manager of the Year category of the Investment Awards 2015, organised by the respected pension industry publication, Professional Pensions.



## Patron buys The Mint office in Leeds

7 May 2015 | By [Guy Montague-Jones](#)



## CHINESE BURN Keith Breslauer

**What's happening in China and how might it affect European property markets?**

Property Week  
30 October 2015



*Patron Capital V, L.P.*

Kentucky  
Retirement Systems

*February 2016*



# Executive Overview

- **Established European manager led by founder and Managing Director Keith M. Breslauer**
  - Operations across Europe with advisory offices in the UK and Luxembourg and offices in Germany, Spain and Italy
  - Experienced 73-person team including 41 investment professionals with regional and product focused expertise
  - Owner operator model with low team turnover (<4%) since inception
- **Since 1999, Patron has invested in 61 investments totalling €2.2 billion of equity and over €9 billion of gross asset value predominantly across Western Europe**
  - Patron's Western Europe investments are projected to generate a 21% gross IRR and 1.75x gross equity multiple on €1.9 billion of equity (85% of total invested equity) <sup>(2)</sup>
  - Patron's total investments across Europe are projected to generate a 16% gross IRR and a 1.60x gross equity multiple, utilizing conservative leverage of approximately 41% loan to value ("LTV") <sup>(2)</sup>
- **Patron Capital, V L.P. (the "Fund" or "Fund V")**
  - €750 million fund targeting opportunistic and value-oriented investments in property and property-related assets, loans and corporate entities, predominantly in Western Europe
  - Successor vehicle to €780 million Patron Capital, L.P. IV ("Fund IV") with €330 million of additional co-investment capital
  - 17% - 22% targeted gross leveraged IRR with 1.7x+ gross equity multiple <sup>(1)</sup>
  - €577m committed/approved to date (€562m closed) with expected additional closings in coming month. An additional €75m of co-investment pools committed, bringing total capital to €652m.
  - **Fund V Capital comprises over 80% from existing investors and over 92% from investors who have known Patron for over 5 years.**

*(1) The target return is neither a guarantee nor a projection of future performance. Gross IRR and gross returns do not reflect the effect of General Partner's share, carried interest and other expenses*

*(2) Please see Endnotes to Investment Performance in Appendix IV for further information. Past performance is not indicative or guarantee of future results*



# Patron Platform – Integrated and Interactive (41)

- Dedicated 73-person team including 41 investment professionals averaging 18 years of experience and senior partners averaging 23 years of experience

**Keith M. Breslauer**

## Country Focus

Christoph Ignaczak  
 Pedro Barcelo  
 Georg von Hammerstein\*  
 Vicente Conesa\*  
 Mark Collins  
 Daniel Weisz  
 Luigi Capuano  
 Bertrand Schwab\*  
 Matt Utting  
 Jason Meads\*  
 Robert Booth\*  
 Guillaume Lefort\*

## Shane Law

Laurens Feleus  
 Michael Capaccio  
 Rafael Fitoussi  
 Wiktor Lesinski  
 Yolanda Leal  
 Juan Du  
 Jonatas Szkurnik  
 Simon Geldmann  
 Arnau Osorio  
 Paul Nearchou  
 Julian Rosenberg  
 Giovanni Bimbi  
 Angela Favullo

## Product Focus

Stephen Green  
 Andrew Cummins  
 Irina Stamate-Rocha  
 Tim Street\*  
 Danny Kay\*  
 Camil Yazbeck  
 Josh Wyatt\*  
 Ashish Kashyap  
 Nate Kornfeld\*

**Development**  
**Kevin Cooke**  
 Jason Gunn  
 Thijs Van Dorssen  
 Richard Sykes

Chart Key

* Senior Advisers	Corporate	Home Building	Residential & Consumer Distressed	Development
European Generalist	Hotels & Leisure	Petrol Stations Forecourts	Commercial Credit & Distressed	Healthcare

# 2011 vs 2016: Strong Relative Investment Period for Western Europe

Context	2011-2015 Fund IV	2015-2018 Fund V	Opportunity?
<b>Macroeconomic Environment</b>	Economy across Europe highly uncertain and clear risk of Euro breakup in investors' minds	<b>More stable and improving</b> economic environment; improvement of liquidity, falling commodity prices and weaker Euro (factors not present in earlier period) are bolstering growth	<b>Much better, with less uncertainty</b> but a recovery subject to macro geopolitical risk <b>Buy/Exit</b> Good/Tricky
<b>Regulatory Environment</b>	Uncertain, lots of discussion and planning, with limited incentives for asset resolution	<b>Significant changes in environment</b> with a series of stress tests that are pressurising banks for sales; combined with re-emergence of non bank lenders increasing Regulatory Capital requirements as suppliers of liquidity	<b>Supportive</b> , although still limited transparency <b>Buy</b> Great
<b>Debt</b>	No, to very limited lending availability	<b>Debt has returned</b> in prime markets and for prime assets. Levels still significantly less than what they were in the boom; non-bank lenders becoming more active in the UK	<b>Helpful, improving ROI</b> , more liquidity <b>Buy</b> <b>Exit</b> OK Great
<b>Available Inventory from Deleveraging</b>	Limited, few banks selling, bad banks just really forming	<b>Significant, various bad banks now created and active</b> in disposition with UK/Ireland leading in past 12 months and Spain/Portugal, Ireland and Germany next	<b>Massive, but tricky</b> given large volume of weak product <b>Buy</b> Great
<b>Breakup Opportunities from Large NPL Sales</b>	Barely started	<b>The multi-billion Euro sales</b> of loan portfolios by Lloyds, NAMA, Sareb and others in the last couple of years will generate a steady stream of smaller granular opportunities as the portfolios are liquidated	<b>Granular opportunities</b> available for a niche player <b>Buy</b> Good
<b>General Supply Across Classes</b>	Significant excess supply across all classes; very limited if any new supply, except residential which was beginning in key cities	<b>Limited new supply</b> in most classes and locations, with a lack of new development since the GFC and increasing pressure on rents	<b>Significant</b> ; more visibility on improvement potential of distressed assets <b>Buy</b> Great
<b>Demand Across Classes</b>	Strong demand for yielding assets and interest in property classes that either meet the annuity liability requirements or havens of capital safety; SWFs emerging as important capital players on cross market basis	<b>Continued increase in interest for yielding assets from massive yield hungry</b> investors; global capital flows increased significantly with continued ramp up of SWF interest in “trophy” assets	<b>Better exit opportunities</b> for prime yielding assets <b>Buy</b> <b>Exit</b> Tricky Great

## Conclusions - Macro Europe & Markets

- The European economy continues to gradually strengthen. This is facilitated by strong liquidity and low level of oil price – **Major Positive**
- Continuous growth of capital values is supported by the shortage in new supply, falling vacancy rates and rising rental level – **Major Positive**
- Increasing capital inflows into Europe create liquidity as investors are hunting for yield, gradually migrating to regional/more risky assets – **Major Positive (exit)**
- Fragmented markets with limited transparency provide granular players, like Patron with unique profitable opportunities – **Major Positive**
- The general low growth economic environment makes investing tricky, as certain assets will not have long term value – **Be Careful!**

# Deep Value Investment Strategy

## Focus on Investments below Intrinsic Value

	Target %	
Distressed	<b>Assets/Portfolios</b> <ul style="list-style-type: none"> <li>• Bank driven sales/liquidations</li> <li>• Liquidity constrained operators/borrowers/developers</li> </ul>	50-60%+
	<b>Businesses with Underlying Property below Intrinsic Asset Value:</b> <ul style="list-style-type: none"> <li>• Stable cash flow generative companies supported by property assets</li> <li>• Asset break-up and sale with subsequent entity exit or shut-down</li> </ul>	40-50%+
	<b>Institutional Non-Core (ex distressed)</b> <ul style="list-style-type: none"> <li>• Property assets below intrinsic value deemed non-core by parent/owner</li> </ul>	0-10%
	<b>Complex Situations</b> <ul style="list-style-type: none"> <li>• Attractive property encumbered by complex situations</li> </ul>	0-5%

## Patron Capital Strategic Focus

- **Cheap underlying basis**, relative to comps and historical
- **Shorter duration**, < 5 years, ideally < 4 years
- **Cash generative, no long term, large development with planning risk**
- **Good local partners**, especially with more complex plans
- **Generally smaller investments**, < €100m equity, limited competition
- **Owner-operator hybrid model**, strong oversight, typically active partners
- **Regional focus**, regions with greater historical liquidity (WE)

## Investment Performance – Overall

- Since inception in 1999, Patron has invested in 61 investments representing €2.2 billion of equity and over €9 billion of gross asset value
  - Approximately €1.9 billion of this €2.2 billion has been deployed in Western Europe and is projected to generate an **aggregate gross IRR of 21% and a gross equity multiple of 1.75x**
  - Low leverage of approx. 41% LTV utilised across all funds and co-investment pools

**Patron Overall Performance as of September 30, 2015 (€ in millions) <sup>(1)</sup>**  
(Past 15 years)

	<i>Number of Investments</i>	<i>Invested &amp; Identified Equity <sup>(ii)</sup></i>	<i>Realised Proceeds <sup>(iii)</sup></i>	<i>Unrealised Proceeds <sup>(iv)</sup></i>	<i>Total Realised &amp; Unrealised Proceeds <sup>(v)</sup></i>	<i>LTV <sup>(vi)</sup></i>	<i>Gross IRR <sup>(vii)</sup></i>	<i>Gross Equity Multiple <sup>(viii)</sup></i>
Overall Patron Performance	61	€ 2,195	€ 1,264	€ 2,250	€ 3,514	40.7%	16%	1.60x
Western Europe	53	€ 1,876	€ 1,230	€ 2,054	€ 3,284	38.3%	21%	1.75x
Cash Generative	40	€ 1,598	€ 1,034	€ 1,972	€ 3,006	37.4%	24%	1.88x
Western Europe & Cash Generative	37	€ 1,585	€ 1,297	€ 1,677	€ 2,974	37.4%	24%	1.88x

*(1) Please see Endnotes to Investment Performance in Appendix IV for further information.*

# Fund V Investments (since Nov 15)

## Fund V investments (since Nov 15)

#	Investment Name	Country	Type	Base Case			Target Case		
				Equity (€m)	Projected EM	Projected IRR	Equity (€m)	Projected EM	Projected IRR
<b>Closed Investments</b>									
1	Cologne	Germany	Office	9.2	1.62x	16.1%	9.2	1.80x	21.8%
2	La Cordee	France	Resi	14.6	1.50x	28.6%	8.3	1.92x	54.7%
3	Eastpoint <sup>(ii)</sup>	Ireland	Office	16.3	1.76x	17.2%	16.3	1.89x	21.7%
4	Green <sup>(ii)</sup>	Spain	Retail	17	1.60x	17.0%	17	1.70x	20.0%
	<b>Subtotal</b>			<b>57.1</b>	<b>1.62x</b>	<b>19.9%</b>	<b>50.8</b>	<b>1.83x</b>	<b>29.6%</b>
<b>Subject to Final Approvals &amp; Formal Completion</b>									
5	Aqua <sup>(ii)</sup>	Spain	Mixed Use	33.9	1.70x	15.0%	26.0	2.31x	25.4%
6	Turbo <sup>(ii)</sup>	UK	Residential (Mid-Market)	60.6	1.67x	17.0%	60.6	1.92x	20.7%
	<b>Subtotal</b>			<b>94.5</b>	<b>1.68x</b>	<b>16.3%</b>	<b>86.6</b>	<b>2.06x</b>	<b>22.4%</b>
<b>Allocated but not yet Committed</b>									
7	Habitat <sup>(i)</sup>	Portugal	Resi	18.9	1.47x	18.1%	12.6	1.77x	39.5%
<b>Total</b>				<b>170.5</b>	<b>1.64x</b>	<b>17.7%</b>	<b>150.0</b>	<b>1.95x</b>	<b>26.7%</b>

*i) Completed on Largo do Mastro for €3.5m (the first property). Proposed larger program yet to be formally approved.*

*ii) Completion expected Q1/Q2 2016, either due to the Fund waiting for regulatory proposals or closing terms to be finalised*

*Note - for the purpose of calculating a weighted average return, the projected returns and approved € amount per the Investment Committee Memoranda are used. No FX impact is assumed on the returns of non-EUR deals (UK)*

# Cologne, Germany (Fund V)

<b>Location:</b>	Germany	<b>Acquisition Date:</b>	December 2015
<b>Invested Equity:</b>	€9.2 million	<b>Investment Status:</b>	Unrealised
<b>Industry:</b>	Office	<b>Deal Type:</b>	Asset below intrinsic value / Non-Core
<b>Gross IRR:</b>	16%	<b>Gross Multiple</b>	1.6x

- Acquisition of a 14,372 sqm office building on the border of Cologne's city centre, with significant and unique redevelopment potential in an economically strong and affluent city with a good micro location and excellent connections to public transportation
- JV partner is Development Partner AG, an experienced office and retail developer and investor with a strong track record. Development Partner AG is investing 20% of total equity
- Seller is Patrizia who has shifted strategy from a direct investor to primarily a Spezialfonds manager. As a result the asset has become non-core for them
- Asset is currently 52% let, generating rental income of approx. €756,000 p.a. reflecting a €12.80 psqm rent with a WALT of 2.2 years



## Strategy, Value Added and Results:

- Plan is to reposition the asset as a landmark building within the premium segment which is undersupplied in the local market
- Termination of all existing leases until 31/12/2016, implement extensive capex program (€1,775 psqm) - the property will be stripped out and completely refurbished (incl. upgrade of the façade) into a high end, functional and flexible office space, comprising 14,372 sqm of lettable area
- Lease up of refurbished office space at an average ERV of €15.50 psqm
- Exit to investor market at a 5.4% cap rate (€3,939 psqm)

**Projected gross IRR of 16% and a gross equity multiple of 1.6x**

## Key Value Drivers

- Repositioning of undervalued real estate asset through active asset management and implementation of accretive capital expenditure program and sell to core investors seeking yield
- Asset acquired for 4.6% yield (48% vacancy), improve to stabilised yield of 7.0% and exit at 5.4% yield

# East Point, Ireland (Fund V)

<b>Location:</b>	Ireland	<b>Acquisition Date:</b>	Exchanged December 2015, completion May 2016
<b>Invested Equity:</b>	€12 million – up to €16 million (capex)	<b>Investment Status:</b>	Unrealised
<b>Industry:</b>	Office	<b>Deal Type:</b>	Assets below intrinsic value
<b>Gross IRR:</b>	17%	<b>Gross Multiple</b>	1.8x

## Transaction Summary:

- Acquisition of four multi-let office buildings with gross internal area of 153,000 square feet at East Point Business Park, Dublin
- The assets are let to 6 tenants (including Oracle, Google and Verizon) and at underwriting were 12% vacant by floor area (7% vacant subject to new letting in progress, agreed in December 2015, completes)
- The rent being paid by each tenant varies from €5 psqft to €15 psqft (average €9 psqft), driven by when individual leases were agreed –Current lettings on the park (and acquired assets) are achieving €22 psqft
- The Assets are being acquired in joint venture with Earlsfort and O’Callaghan Properties, Patron’s local partner on Northside Shopping Centre (Project Drive) – Earlsfort (original developer of the park and current asset manager across various buildings) will asset manage the assets and O’Callaghan will act as our investment partner.



## Strategy, Value Added and Results:

- Lease-up, re-let and re-gear of existing leases supported by significant €7.7m capex and tenant improvement program across the assets
  - Lease up of current 12% vacant space
  - Re-let of 28% of assets (upside is re-gear to current tenant as position unclear)
  - Re-gear of 34% of assets (primarily one tenant with significant presence on park)
- Exit as a portfolio sale in 4 years - while the Assets can be sold individually, it is expected that purchasers will find it an attractive opportunity to buy a portfolio of assets at East Point.



**Projected gross IRR of 17% and a gross equity multiple of 1.8x**

### Key Value Drivers

- Asset acquired for 4.4% yield (12% vacancy but significantly under-rented to ERV), improve to stabilised yield of 9.8% and exit at 6.0% yield (6.6% on ERV)

# La Cordee, France (Fund V)

<b>Location:</b>	Chamonix, France	<b>Acquisition Date:</b>	December 2015
<b>Invested Equity:</b>	€14.6 million <sup>(1)</sup>	<b>Investment Status:</b>	Unrealised
<b>Industry:</b>	Residential	<b>Deal Type:</b>	Assets below intrinsic value / Non-Core
<b>Gross IRR:</b>	29%	<b>Gross Multiple</b>	1.5x

## Transaction Summary:

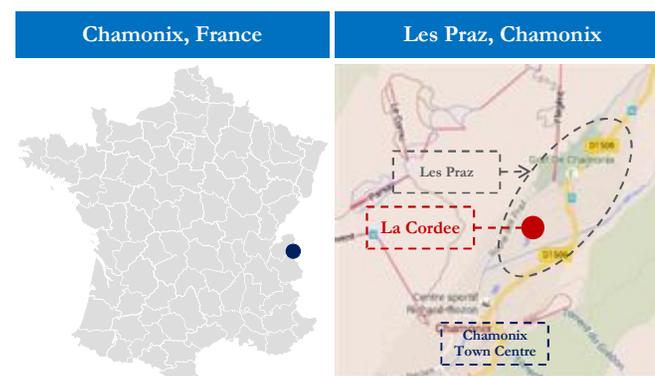
- Acquisition of c. 7,000 sqm of existing residential asset blocks in Chamonix (France) to refurbish and resell individually. The Asset is located in the heart of Les Praz, the most prime residential area within the Chamonix Valley.
- The Asset is made of 8 contiguous buildings (124 apartments mostly one bedrooms) with floor levels ranging from two to four stories and generates more than 6,919 sqm of space over a total land surface of 1.8 hectares. There are 144 parking spaces of which 124 underground spread over one level of 3,023 sqm.
- The asset was sold and operated by Hapimag a Swiss time-share apartment's owner-operator which decided to sell it because it was considered non-core to its global strategy for a total consideration including acquisition costs of €21.5m which represents a cost per sellable sqm of €3,632.

## Strategy, Value Added and Results:

- Partnering with Cardea Real Estate Investment a Chamonix based local developer specialised in opportunistic origination, management and development of high margin residential real estate projects in Chamonix
- Execute a light refurbishment for €11.1m (€1,871 psqm) over 18 months to reposition the Asset as a 69 apartment medium / high-end condominium complex
- Leverage on the particularly low acquisition price to offer an aggressive price of €8,250 psqm upon sale (representing a 13.1% discount vs. direct competition (€9,436 psqm) and overall Les Praz current apartment ask price)
- With a combination of strong pricing and controlled marketing process to sell a minimum of 2.2 units per month and c. 26 units p.a. on average

**Projected gross IRR of 29% and a gross equity multiple of 1.5x**

(1) Including equity allocated for refurbishment work



Outside Pictures of the Asset

### Key Value Drivers

- Refurbishment of existing asset to exit in retail market
- Very low entry (€3,632 psqm) enabling aggressive pricing (€8,250 psqm 13% below market) with project still generating gross margin above 31%

# How Patron Helps to Change the World



Supports current or retired members of the British Armed Forces who continue to defend freedom & our way of life, and who are facing difficulties as a result of their service.

- Patron has raised in excess of £700,000 (>\$1 million) for the Royal Marines Charitable Trust Fund over the past few years
- Patron team participated in various important fundraising sport events including:
  - RM 1664 Challenge:
    - Kayak (26 hour/120 mile kayak across the English Channel)
    - 30 mile night time run
  - Multiple sponsored climbing/running & athletic challenges (i.e. Half Marathons every year)
- Complimentary respite breaks at our Patron portfolio hotels given to over 20 servicemen & their families and these continue to be available to service personnel who are ill or recovering from injuries
- Improving career & business prospects through facilitating, mentoring, internships & training programs in UK industries
- Multiple individuals in recovery have been guests on Patron's annual ski trip for the last four years



Supports educators & funds projects to improve education with refurbishment and construction of new schools, harnessing their multiplier effects in key areas of society.

- Patron has provided support to a team which help build and refurbish schools in the valleys leading to Everest:
  - Thame School, Pangboche Village School, Sedowa Village School, Lukla Village School, Gola School, Karmarang School and Ligam School
- Patron is a senior patron of The Prince's Teaching Institute (PTI), which has dramatically helped over 540,000 kids across England over the past 5 years, through supporting continuing education primarily for state school teachers
- Patron team participated in various athletic events to raise significant monies for the PTI and the Nepalese initiative
- Patron supports the Social Enterprise Initiative at the University of Chicago Booth School of Business which brings together researchers to tackle societal issues and considers how institutions help solve social problems
  - Various scholarships have been provided to students and their respective teams to help support their businesses



Empowers & supports the building blocks of society through improving & preserving the physical environment, providing emergency aid and ongoing support for the vulnerable.

- Patron is a main supporter of The Prince's Regeneration Trust, a world leading charity in the heritage regeneration sector which has managed over 70 regeneration projects, attracting over £150m investment & regenerating more than 1.3m square feet of redundant floor space
- Significant donations have been made to various organisations to support their work providing:
  - Immediate aid to those impacted by war on terror
  - Improvement to the lives of vulnerable children and adults with learning disabilities
  - Residential accommodation for the elderly & disabled
  - Powerful positive experiences for children with cancer
- Supporting Seppi Enzo and the Guide team providing critical infrastructure for water, power and community building refurbishment in many Everest Valley villages
- Various senior Patron partners have participated in important sporting events and raised significant sums including running a marathon in the Antarctic and a 2<sup>nd</sup> marathon through Sierra Leone which contributed to Street Child's work with out-of-school children across West Africa and cycling from London to Paris for a national spinal charity

# Real Estate International Investing and Pacing Plan



Kentucky Retirement Systems  
February 18, 2016

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# About ORG



## Who We Are - Mission Statement



ORG is a **real assets investment consultant** providing clients with customized, objective advice. Our investment recommendations and analysis are grounded on **thoughtful and conservative underwriting and comprehensive research** delivered with conviction. We provide clients with unequaled access and transparency to global investment opportunities.



# ORG Overview

ORG Portfolio Management, LLC:

is a Registered Investment Adviser under the Investment Advisers Act of 1940, as amended, and began providing institutional real estate consulting services in 1999 from its Cleveland, Ohio headquarters.

Exclusively focused on:

providing real estate and real asset consulting services for institutional investors and private portfolios through commingled funds and separate accounts.

Stable, knowledgeable staff with investment expertise gained through prior experiences:

Commercial property ownership, acquisition, development, and property management.

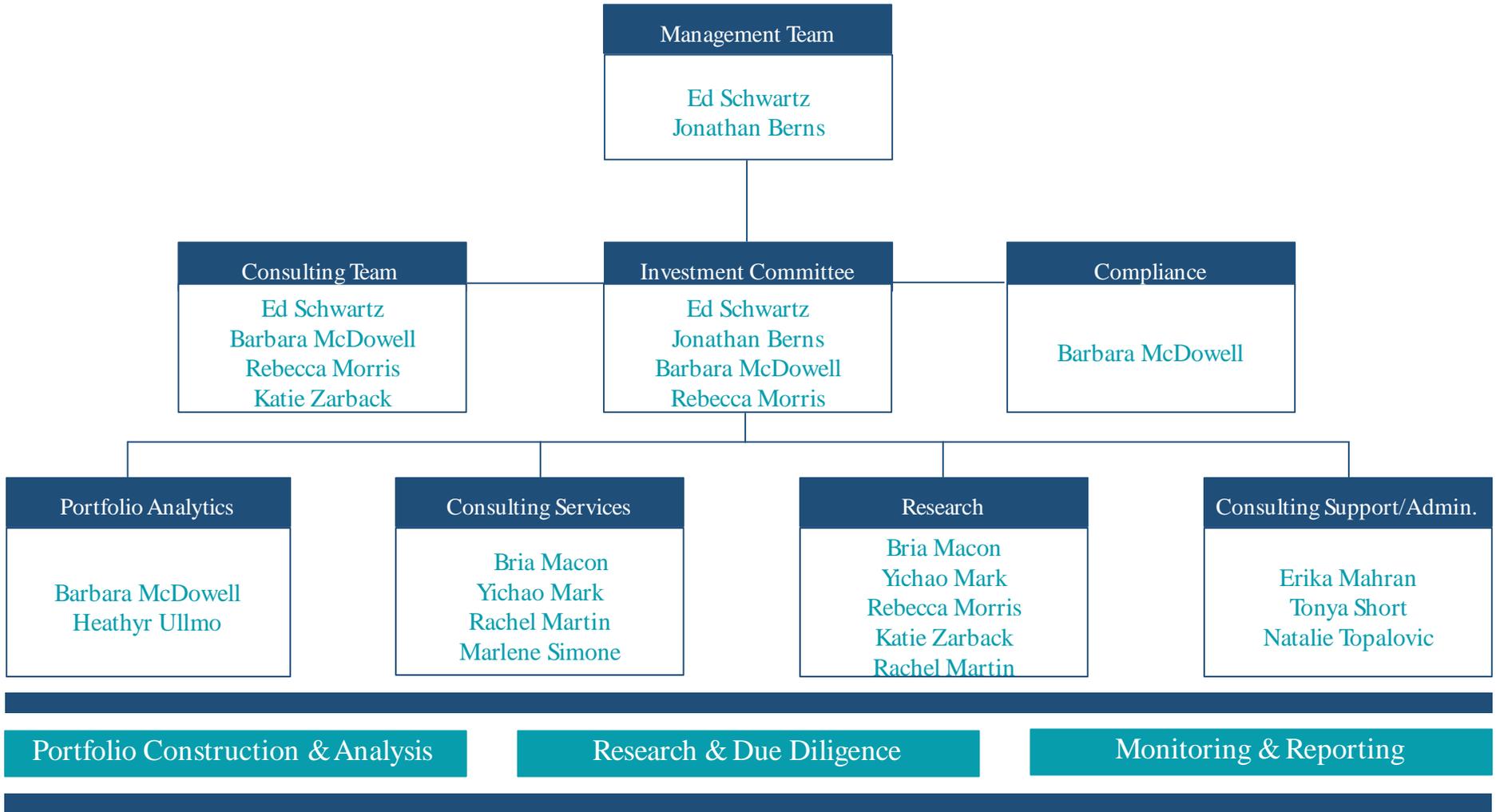
Portfolio strategy and research.

Plan sponsor head of real estate.

Talented, diverse team supports ORG's mission and provides the best in class client services.



# The ORG Team



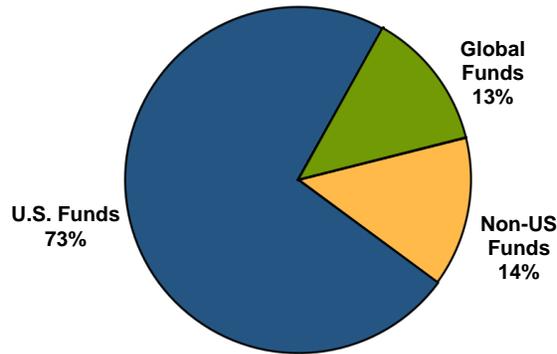
# International Investing



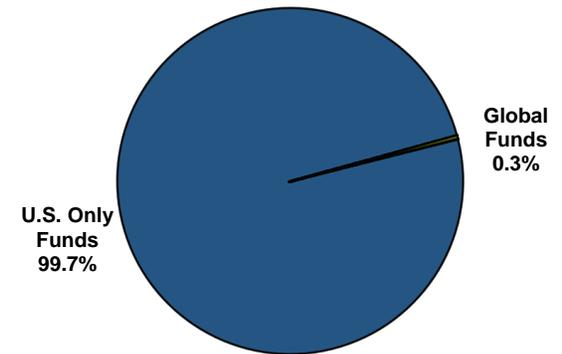
# ORG Clients with Non U. S. Investments

- ORG clients have over \$500 million commitments to Non U.S. real estate funds plus an additional \$500 million commitments to global real estate funds.
- KRS has \$70 million commitments to global real estate funds.
- A 2016 Pension Real Estate Association Study (“PREA”) shows that North American investors (including Canada) have large allocations to Non U.S. investments.

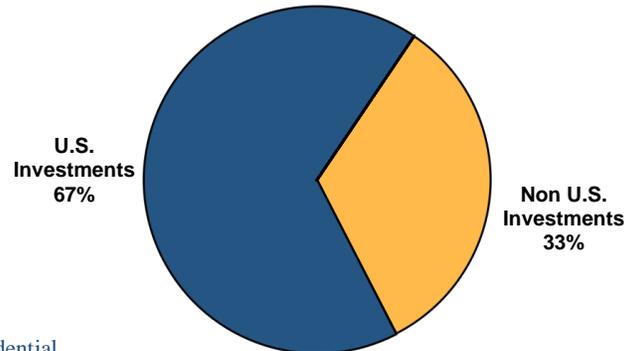
**Percent Total Commitments  
All ORG Clients**



**Market Value as of 9/30/2015  
KRS Only**



**PREA Study**



**Global Investments in Funds:**  
Divco West IV – Includes Europe  
Walton St. VI – Includes India and Mexico



# KRS 2016 Pacing Plan



## 2016 KRS Pacing Plan

- Pacing Plan for 2016 includes:
  - The projected return of capital of \$226.8 million includes the current KRS redemption requests from open end funds – Harrison Street, H/2 Capital, Prima.
  - New commitments of \$150.0 million per year should allow KRS to move towards its target allocation.
- Target allocation of 5% is approximately \$800 million for 2016 which should change over time as the total market value of the fund changes.

	KRS Real Estate Profile				
	Projected Activity by Year				
(\$ Millions)	2016	2017	2018	2019	2020
<b>Beginning Real Estate Market Value</b>	<b>\$843.9</b>	<b>\$732.1</b>	<b>\$819.5</b>	<b>\$951.8</b>	<b>\$1,078.4</b>
<i>Projected Commitments During Period</i>	<i>\$150.0</i>	<i>\$150.0</i>	<i>\$150.0</i>	<i>\$150.0</i>	<i>\$150.0</i>
Projected Invested During Period	\$107.0	\$102.0	\$145.0	\$137.5	\$130.0
Projected Return of Capital	(\$226.8)	(\$22.5)	(\$21.5)	(\$21.0)	(\$22.0)
Annual Appreciation Estimate	\$8.0	\$7.9	\$8.8	\$10.1	\$11.4
<b>Projected Ending Real Estate Market Value</b>	<b>\$732.1</b>	<b>\$819.5</b>	<b>\$951.8</b>	<b>\$1,078.4</b>	<b>\$1,197.8</b>

# Appendix



## KRS Real Estate Portfolio Financial Highlights

Financial Highlights At September 30, 2015	Market Value	Percent of Fund
<b>Portfolio Market Value</b>	\$855,575,117	5.8%
<b>Current Unfunded Commitments</b>	\$101,427,345	
<b>Total Market Value and Unfunded Commitments</b>	\$957,002,462	6.5%
<b>Total Fund Market Value</b>	\$14,793,254,013	
Total Allocation to Real Estate	\$739,662,701	5.0%
<b>Total Loan-to-Value Ratio</b>	46.0%	

- The KRS Real Estate Portfolio made its initial investments in 2009.
- KRS currently has \$907.5 million of real estate commitments to various open and closed end funds.
- ORG does not expect that all funds will call 100% of their commitment. Some of the older funds have begun returning capital.

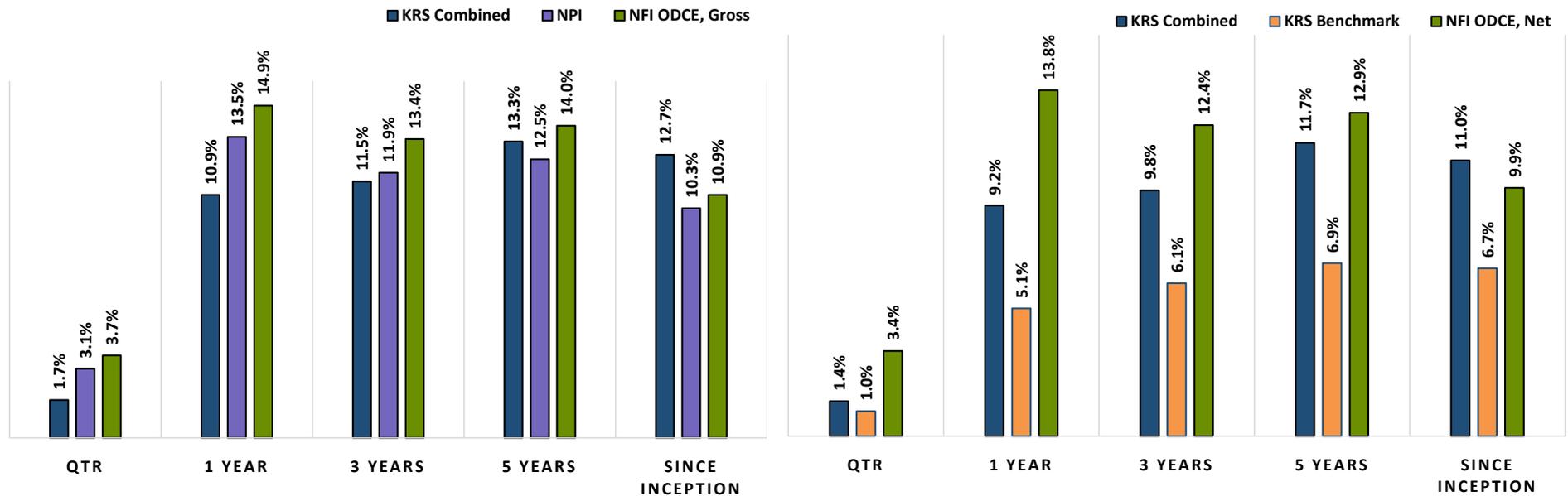


# KRS Real Estate Performance

## Time Weighted Returns, Gross of Fees

## Time Weighted Returns, Net of Fees

As of September 30, 2015



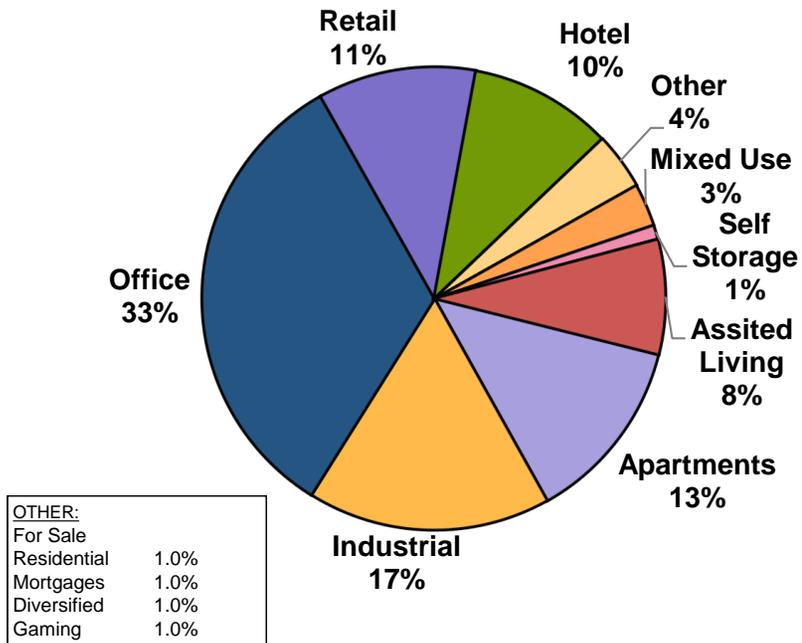
- The KRS Benchmark is a real rate of return (adjusted for inflation) of 5.0%, net of investment management fees.
- The KRS Real Estate Portfolio continues to perform well.
- The Since Inception return is 110 basis points greater than the NCREIF ODCE index, net of fees and 430 basis points greater than the KRS Benchmark.



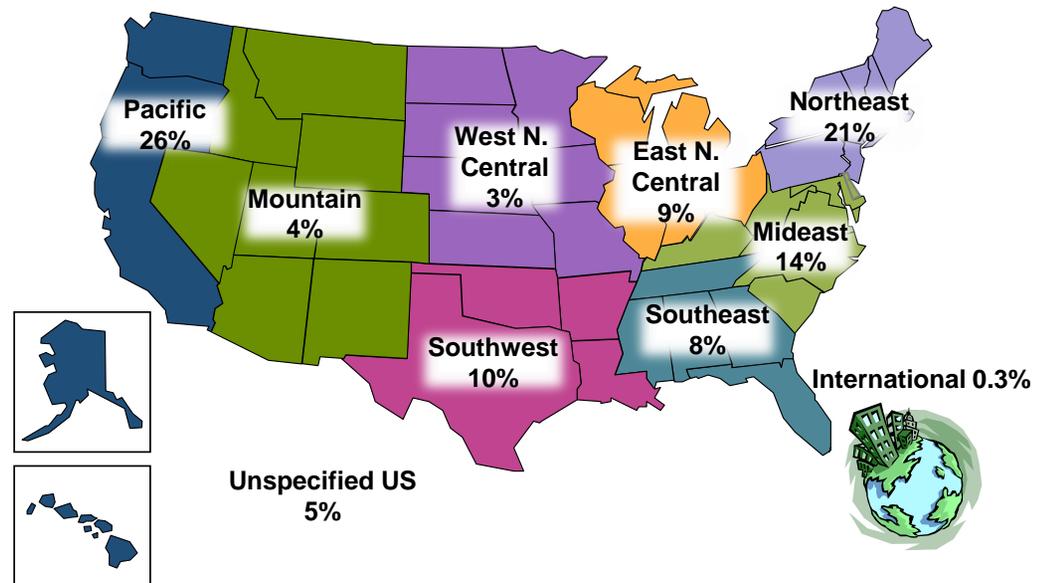
# KRS Real Estate Portfolio Diversification

## Property Type Diversification

Based on Market Value as of September 30, 2015



## Geographic Diversification



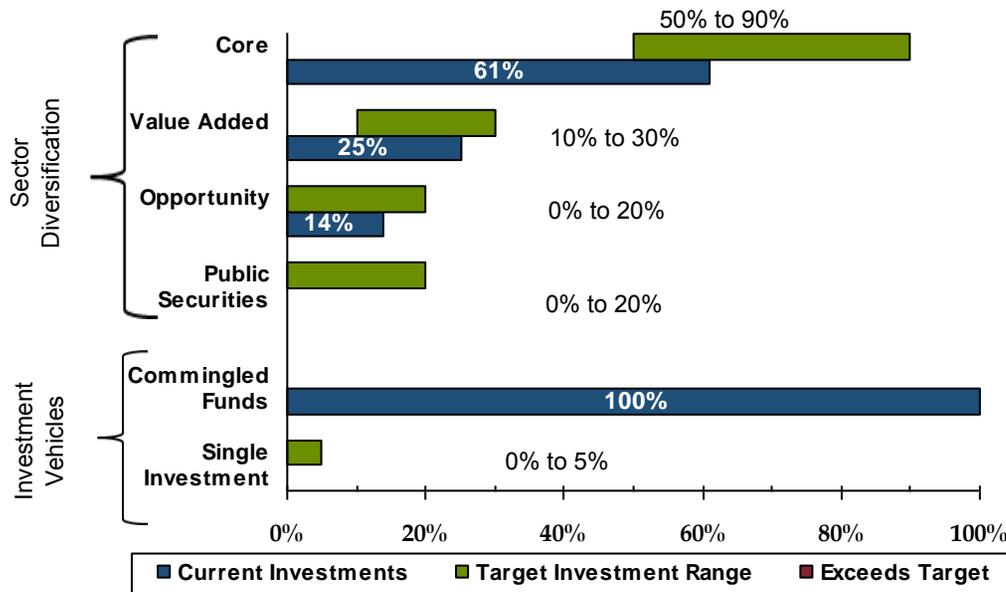
- The KRS Real Estate Portfolio is well diversified by property type and geographic locations.



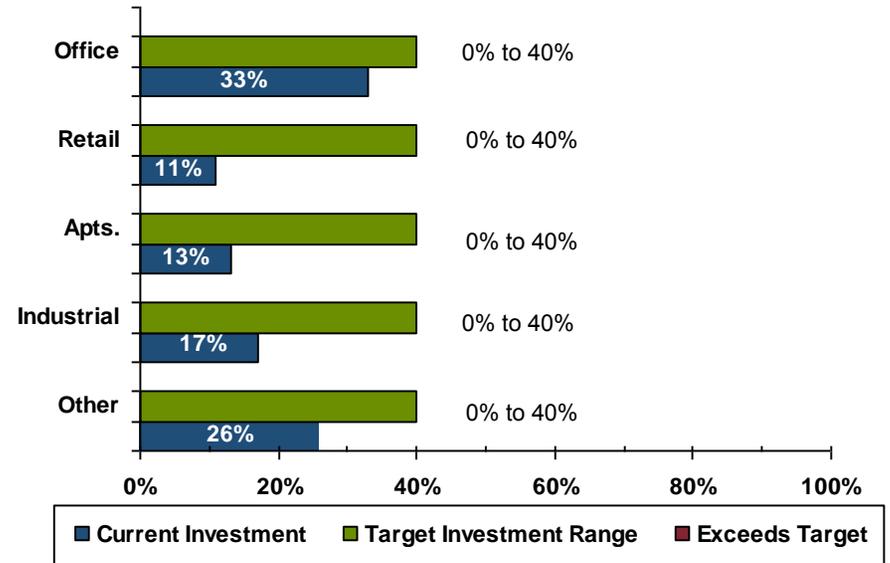
# KRS Real Estate Portfolio Compliance

## Portfolio Diversification

As of September 30, 2015



## Property Type Diversification



- The KRS Real Estate Portfolio is within the ranges for both the Portfolio and Property Type Diversification.

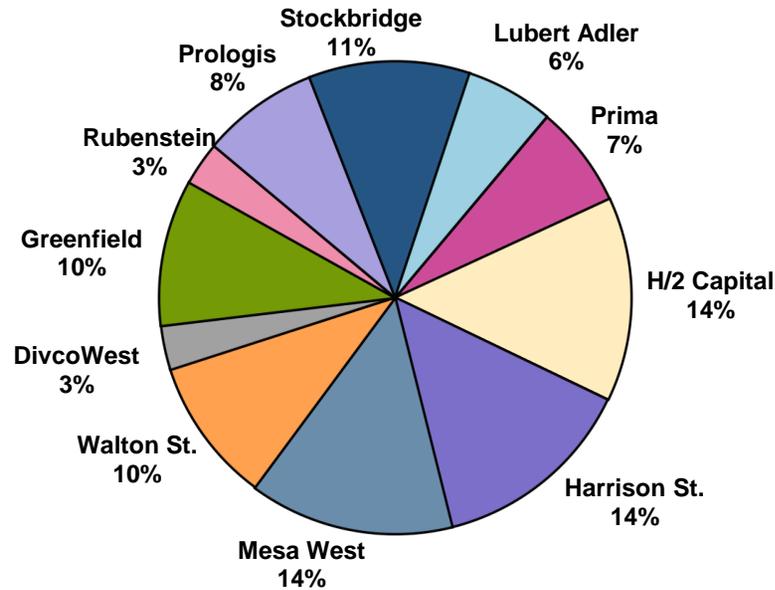
Compliance with Policy:



# KRS Real Estate Portfolio Compliance

## Investment Manager Diversification

Based on Commitments as of September 30, 2015

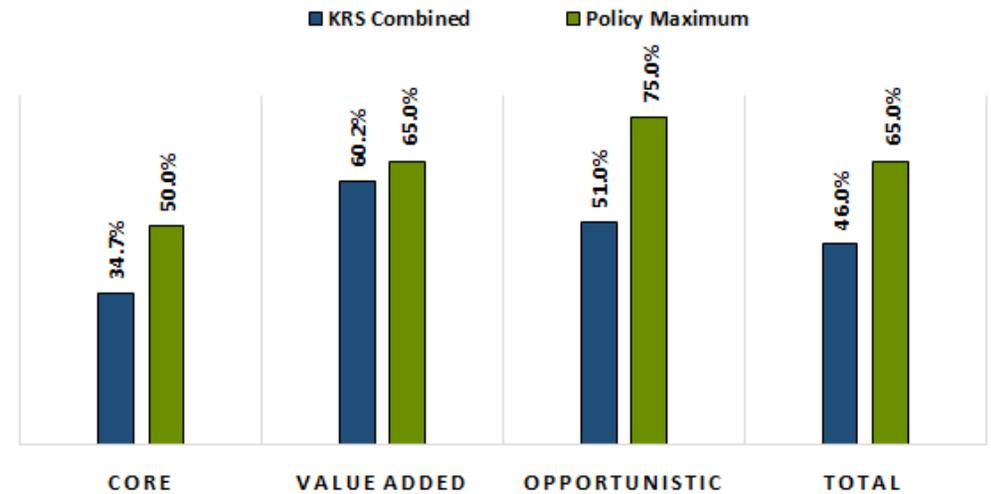


Policy Target is 20% Committed to One Manager (\$157.0 million)

- The KRS Real Estate Portfolio meets the Investment Manager Diversification and the Leverage Ratio targets.

## Leverage Ratio

Based on Market Value as of September 30, 2015



Policy Target is 65% Total Portfolio Leverage

Compliance with Policy:



# KRS Real Estate Portfolio Performance Returns – Pension Plan

Based on Market Value as of September 30, 2015

Investment	Vintage Year	Strategy	Commitment	Capital Contributions	Distributions	Net Asset Value	Net Multiple	Net IRR
DivcoWest Fund IV REIT, LLC	2013	Opportunistic	\$20,800,000	\$17,245,947	(\$2,605,974)	\$21,316,347	1.4x	28.5%
Greenfield Acquisition Partners VI, L.P.	2012	Value Added	38,120,000	36,569,127	(22,951,886)	31,068,891	1.5x	16.9%
Greenfield Acquisition Partners VII, L.P.	2013	Value Added	27,800,000	14,683,349	(7,102,978)	16,300,665	1.6x	11.1%
H/2 Core Debt Fund, LP	2014	Core	21,100,000	21,100,000	(2,360,991)	21,339,323	1.1x	7.5%
H/2 Credit Partners, L.P.	2011	Value Added	76,900,000	76,900,000	0	99,726,052	1.2x	6.4%
Harrison Street Core Property Fund, L.P.	2011	Core	92,540,000	92,540,000	(15,105,436)	106,211,434	1.3x	9.3%
Lubert-Adler VII, L.P.	2014	Opportunistic	34,750,000	10,425,000	(170,445)	9,653,858	0.9x	-10.7%
Mesa West Core Lending Fund, L.P.	2013	Core	57,500,000	57,500,000	(8,136,748)	58,457,003	1.1x	6.6%
Mesa West Real Estate Income Fund II, L.P.	2008	Value Added	36,000,000	30,035,381	(38,679,973)	3,125,162	1.4x	13.1%
PRIMA Mortgage Investment Trust	2008	Core	45,000,000	45,000,000	(18,566,412)	53,822,962	1.5x	9.4%
Prologis Targeted US Fund, L.P.	2013	Core	51,000,000	51,000,000	(1,167,749)	54,644,010	1.1x	15.8%
Rubenstein Properties II, L.P.	2013	Value Added	20,800,000	8,634,423	(7,195,070)	8,600,924	1.8x	22.7%
Stockbridge Smart Markets Fund, L.P.	2013	Core	69,000,000	69,000,000	(3,777,391)	75,629,490	1.1x	12.7%
Walton Street Fund VI, L.P.	2008	Opportunistic	36,000,000	28,728,424	(22,673,987)	25,113,336	1.9x	10.7%
Walton Street Fund VII, L.P.	2012	Opportunistic	38,120,000	27,998,758	(1,510,094)	34,805,710	1.3x	21.3%
			\$665,430,000	\$587,360,409	(\$152,005,134)	\$619,815,167		



# KRS Real Estate Portfolio Performance Returns – Insurance Fund

Based on Market Value as of September 30, 2015

Investment	Vintage Year	Strategy	Commitment	Capital Contributions	Distributions	Net Asset Value	Net Multiple	Net IRR
DivcoWest Fund IV REIT, LLC	2013	Opportunistic	\$9,200,000	\$7,628,016	(\$1,152,643)	\$9,428,383	1.4x	28.5%
Greenfield Acquisition Partners VI, L.P.	2012	Value Added	16,755,000	16,073,340	(10,088,113)	13,655,804	1.5x	16.9%
Greenfield Acquisition Partners VII, L.P.	2013	Value Added	12,200,000	6,443,772	(3,117,136)	7,153,529	1.6x	11.1%
H/2 Core Debt Fund, LP	2014	Core	8,900,000	8,900,000	(660,729)	9,000,879	1.1x	4.2%
H/2 Credit Partners, L.P.	2011	Value Added	22,800,000	22,800,000	0	28,380,129	1.2x	6.1%
Harrison Street Core Property Fund, L.P.	2011	Core	31,010,000	31,010,000	0*	39,161,850	1.3x	9.2%
Lubert-Adler VII, L.P.	2014	Opportnistic	15,250,000	4,575,000	(74,800)	4,236,585	0.9x	-10.7%
Mesa West Core Lending Fund, L.P.	2013	Core	25,500,000	25,500,000	0*	29,134,531	1.1x	7.6%
Mesa West Real Estate Income Fund II, L.P.	2008	Value Added	4,000,000	3,337,265	(4,302,937)	347,237	1.4x	13.2%
PRIMA Mortgage Investment Trust	2008	Core	21,500,000	21,500,000	(4,576,567)	22,745,526	1.2x	6.9%
Prologis Targeted US Fund, L.P.	2013	Core	19,000,000	19,000,000	0*	20,605,564	1.1x	15.8%
Rubenstein Properties II, L.P.	2013	Value Added	9,200,000	3,819,072	(3,170,520)	3,804,255	1.8x	22.4%
Stockbridge Smart Markets Fund, L.P.	2013	Core	26,000,000	26,000,000	0*	30,017,047	1.2x	13.6%
Walton Street Fund VI, L.P.	2008	Opportnistic	4,000,000	3,192,047	(2,519,212)	2,790,371	1.9x	10.7%
Walton Street Fund VII, L.P.	2012	Opportnistic	16,755,000	12,306,380	(663,736)	15,298,260	1.3x	21.3%
			\$242,070,000	\$212,084,892	(\$30,326,393)	\$235,759,950		

\* Distributions are reinvested.



# Biographies



# Biographies

## Edward Schwartz, Principal

Mr. Schwartz is a co-founder of ORG Portfolio Management LLC (ORG) and has over 20 years of experience in real estate consulting. Mr. Schwartz's vision and planning, along with co-founder Jonathan Berns, has resulted in ORG's growth and standing as a premier institutional real estate consulting firm. Mr. Schwartz also participates in and administers the firm's review of investment managers, co-investment opportunities and secondary offering purchases. He formulates ORG's economic and real estate market opinions and develops client portfolio strategies. Mr. Schwartz is a voting member of ORG's Investment Committee. Prior to forming ORG in 1999, Mr. Schwartz was a consultant with The Townsend Group where his clients included some of the largest public and private US pension plans. As a consultant, his responsibilities included investment manager reviews and strategic portfolio construction. He served as Portfolio Manager for a limited partnership with 350 taxable investors, overseeing in excess of \$1 billion of real estate assets. Mr. Schwartz participates on The Institutional Real Estate Letter's Editorial Advisory Board and is an active member of Pension Real Estate Association (PREA). He is a frequent panelist and speaker at industry conferences and educational forums for public pension plan staff and trustees. Mr. Schwartz has authored articles for a variety of pension and real estate focused publications and has been quoted in The Wall Street Journal relative to his opinions on real estate issues. Mr. Schwartz has a Master of Science in Business Administration with a concentration in Finance from Weatherhead School of Management, Case Western Reserve University and a Bachelor of Arts in Economics from Kenyon College.

## Jonathan Berns, Principal

Mr. Berns is a co-founder of ORG Portfolio Management LLC and has been active in the real estate and consulting industry for over 25 years. Mr. Berns has dedicated his time and vision, along with co-founder Edward Schwartz, to growing ORG into a premier real estate consulting firm. As a senior investment professional, Mr. Berns is directly involved in and administers client service, investment fund and real asset due diligence, portfolio strategy and manager oversight. He also is responsible for the oversight of the ORG Diversified Real Estate Portfolio, a separate entity that owns and manages a \$150 million investment portfolio including apartment, office, retail and industrial properties. Mr. Berns is a voting member of the ORG Investment Committee. Prior to forming ORG in 1999, Mr. Berns was president of Berns Properties, Inc., a real estate development, investment and consulting company that he founded in 1984. Acting as a consultant under Berns Properties, Mr. Berns was responsible for negotiating an investment by Nuon International, a \$2 billion Dutch utility, in North Coast Energy, as well as consulting in the acquisition of two large research facilities located in Michigan and Pennsylvania. Mr. Berns is a past chairman of the First Suburbs Consortium, a nationally recognized government-led advocacy organization focused on redevelopment of urban property, and has been a national speaker on real estate investment strategies, urban redevelopment and energy utilization optimization and procurement. Mr. Berns is a member of Pension Real Estate Association (PREA). He has a Bachelor of Science in General Science from the University of Michigan.



# Biographies

## Barbara McDowell, CEBS, Consultant

Ms. McDowell joined ORG in 2003 and has over 20 years of experience in the institutional real estate industry. Ms. McDowell manages ORG's client reporting, performance measurement, portfolio compliance and monitoring. She also serves as ORG's Chief Compliance Officer. Prior to joining ORG, Ms. McDowell spent 10 years with the SBC Communications Inc.'s Master Pension Trust (SBC Master Pension Trust) as Director of Real Estate and Alternative Investments. Ms. McDowell managed the Trust's real estate asset class investments, including private and public real estate and private equity. Throughout her career Ms. McDowell has been active in Pension Real Estate Association (PREA) and was a member of the Plan Sponsor Executive Council. In 2000, she chaired the Plan Sponsor PREA conference. Prior to working with the SBC Master Pension Trust, Ms. McDowell held various positions at SBC Communications Inc. in Finance, Audit and Information Systems acquiring significant experience and knowledge of compliance and audit procedures, financial reporting, investment and risk management and oversight. Ms. McDowell is a member of National Council of Real Estate Investment Fiduciaries (NCREIF). She has been a member of the Real Estate Information Standards (REIS) Council and remains active in the organization's task forces. Ms. McDowell has a Bachelor of Arts in History from the University of Houston, and a designation as a Certified Employee Benefit Specialist (CEBS).

## Rebecca Morris, Consultant

Ms. Morris has worked with ORG since 2007. Her primary responsibilities include investment fund due diligence and on-going investment manager review and monitoring. She assists with client service and research projects. Prior to joining ORG, Ms. Morris worked at Impact Capital, a consortium of insurance companies, evaluating investment opportunities in private equity and real estate investment funds. She was President of California Capital Alliance, an organization whose focus was finding funding for businesses and infrastructure in lower income communities in California. Ms. Morris also served as Investment Advisor to the Secretary of Trade and Commerce for the State of California, where she headed a program responsible for promoting job-creating infrastructure investments by private equity and real estate funds in the state of California and advising on industrial development bond issues Ms. Morris also previously was a special assistant to California Insurance Commissioner John Garamendi. Ms. Morris served in the United States Army Reserves with a mission specialty of Psychological Operations. She has a Master of Business Administration in Finance from Anderson School of Management at UCLA, a Master of Arts in International Business and was a Rotary Scholar at the University of Leeds, England, and a Bachelor of Science in Marketing Management from California Polytechnic University.



# Biographies

## Katie Zarback, Consultant

Ms. Zarback joined ORG in 2004. She has over 12 years of institutional real estate experience, including asset management, and project management and implementation. As the firm's senior Asset Manager, Ms. Zarback is responsible for creating and managing customized asset management strategies for client-owned real estate investments. Her focus is on maximizing the total return for each asset through the analysis of property efficiencies and identifying opportunities for improved performance, as well as oversees the asset disposition process. She works closely with third party property managers and leasing agents to provide direction for and oversight of business plans, risk management, budgets, forecasts, lease analysis and negotiations, and capital investment approvals. Ms. Zarback has extensive experience in real estate operations, asset level analytics, legal practices and policies, and investor reporting procedures. She has had significant involvement in managing project-based direct investment analysis and research on behalf of clients over the years. Prior to her current role, Ms. Zarback spent several years managing client service initiatives and relationship management, as well as being deeply involved in the acquisition and management of direct real estate investments. Ms. Zarback currently is enrolled in the Master's program for Communications Management at John Carroll University and has a Bachelor of Arts in Communications from John Carroll University.

## Bria Macon, Database Administrator

Ms. Macon joined ORG in 2009 and has primary responsibility for managing ORG's research efforts and supporting due diligence activities by maintaining the information and integrity of ORG's proprietary database. Ms. Macon focuses on obtaining information and researching investment manager strategies and fund-level data. She coordinates the collection of questionnaires, marketing materials, reports and general information from investment managers for the database that facilitates ORG's client recommendations and investment decision making process. Ms. Macon also is responsible for obtaining quarterly reports and periodical data for client invested funds. Prior to joining ORG, Ms. Macon gained significant experience in research and reporting procedures for state and local governing bodies serving as an Administrative Assistant and Analyst for the City of Burbank's Management Services Department in California, where her main responsibilities included maintaining historical files, preparing documents for City officials and organizing City meetings. She also conducted surveys, created reports and provided research for union negotiations with the City. Ms. Macon has a Bachelor of Arts in Communications from Howard University.



# Biographies

## Heathyr Ullmo, Manager, Portfolio Analytics

Ms. Ullmo joined ORG in March 2014 with over 14 years of experience in the financial industry. She is responsible for managing the statistical data in ORG's proprietary database, including cash flows and performance information. Ms. Ullmo also prepares client quarterly reports and manages fund and performance-related special projects. Prior to joining ORG, Ms. Ullmo was the Business Development Officer and Treasury Management Sales Officer at Peoples Bank f/k/a Ohio Commerce Bank, where her primary responsibilities were client relationship management and building and managing the bank's commercial loan portfolio gaining a deep understanding of legal compliance policies for the investment banking and finance industry. Ms. Ullmo negotiated and structured loans for financial feasibility and industry analysis, as well as financial and investor reporting. During her tenure, she managed the commercial loan portfolio transition when Ohio Commerce Bank was bought by Peoples Bank. Ms. Ullmo has a BA in Business Administration with a concentration in Finance from Malone College.

## Yichao Mark, Analyst - Research & Consulting Services

Yichao joined ORG in August 2015 and is responsible for conducting research to support the firm's investment theses, following capital market activity, analyzing statistical data, and developing financial models for investment due diligence. Yichao also assists with evaluating the capabilities of real estate managers and investment strategies, performing asset level analytics, and managing specific client research requests. Prior to joining ORG, Yichao worked for Markets Group (formerly US Markets) where he worked in an investor relations capacity to develop regional institutional investor forums across the USA. Prior to Markets Group, he worked in investor relations at MacKenzie Partners and as an intern at UBS Wealth Management. Before beginning his career in the financial industry, he was a CRTA (Cancer Research Training Award), working with bioinformatics at the National Institutes of Health. Yichao has a Bachelor of Arts in Biology from Boston University. He is also a candidate in the CFA Program.

## Rachel Martin, Support Specialist - Research & Consulting Services

Ms. Martin joined ORG in December 2014 and is responsible for supporting the development and implementation of marketing and research strategies and client initiatives. Ms. Martin works on actively gathering manager and investment opportunity information and reviewing data submissions to support ORG's proprietary database activities. She plays an integral role in the firm's research efforts and the development of client deliverables and marketing materials, as well as assisting with responses to requests for proposals. Ms. Martin has a Bachelor of Business Administration with a concentration in Managerial Marketing from Kent State University.



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# Memo

**To:** Andy Kiehl

**From:** Ed Schwartz, Jonathan Berns

**CC:** ORG Investment Committee

**Date:** January 12, 2016

**Re:** Patron Capital V, L.P.

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## RECOMMENDATION

ORG Portfolio Management LLC (“ORG”) recommends that Kentucky Retirement System (“KRS”) invest up to €50 million in Patron Capital V, LP (the “Fund”), a private equity real estate fund formed by Patron Capital Advisers, LLP (“Patron”) to invest in commercial real estate assets located primarily in Western Europe. The Fund will target small to middle-market transactions in the €30 - €90 million range with a primary focus on the United Kingdom, Germany, Spain, Ireland, The Netherlands, France and Italy.

The Fund represents the fifth investment vehicle for this group of professionals as a team. The Fund is sponsored by Patron Capital Advisers, LLP (“Patron”). Patron was formed in 1999 by Keith M. Breslauer and Patron has raised over €2.5 billion since its inception. A more detailed historical explanation is provided in the “General Background” and “Track Record” section of this report. Information presented in this report includes ORG comments on the Fund, as well as excerpts from various Fund documents provided by Patron.

ORG performed due diligence on the Fund to determine the feasibility of the investment vehicle for the KRS real estate portfolio. Our due diligence included the following:

- A complete organizational review.
- A macro investment environment review to determine whether the proposed investment strategy was viable in the current economic environment.
- A topical review of the latest performance numbers for all realized and unrealized investments.

- A review of the relevant fund documents including the Private Placement Memorandum and recent quarterly reports and audited financial statements for prior funds.
- Meetings with Managing Members in Cleveland and at the manager's office located in London.
- Meetings with other Funds with similar investment strategies.

Patron is targeting a fund size of €750 million (which may be increased to €1.1 billion at the discretion of the GP) with a projected gross IRR of 17% to 22% and a gross equity multiple of 1.7x.

ORG believes the Fund opportunity represents a viable investment vehicle for KRS to invest with a seasoned management team and gain exposure to commercial real estate investments located primarily in Western Europe.

## **SUMMARY OF INVESTMENT ATTRIBUTES**

### **Investment Merits**

- Strategy is timely based on current economic conditions.
- Manager has shown that they are nimble and can execute niche investment strategies.
- Manager completes a high level of research on all investments and is able to fluidly discuss even the smallest details.
- Management team includes former operators of some of the proposed investment targets.
- Much of the Investment team has worked together for numerous years, either directly or through investment partner arrangements.

### **Risks**

- Patron's track record is largely unrealized.
  - Fund II, which began investing in 2004 has returned approximately 56% of the capital and is projecting a gross IRR of 2% and a gross equity multiple of 1.1x.
  - Fund III, which began investing in 2007 has returned approximately 35% of the capital and is projecting a gross IRR of 5% and a gross equity multiple of 1.3x.
  - Fund IV, which began investing in 2012 has returned approximately 40% of the capital and is projecting a gross IRR of 28% and a gross equity multiple of 2.0x.

*Manager's assumptions appear to be realistic for projected returns for the more recent funds and realized investments for Fund III and Fund IV have largely met the Manager's target returns.*

- The Manager has numerous investments, which are unrealized and require the investment team's time and attention to fully execute the business plans.

*Manager has a significant investment team and support staff in place.*

- Success in some of the investment targets requires ground level operations knowledge and/or the creation of an operating company.

*Patron has demonstrated sufficient expertise in the operating company investment platforms.*

- Strategies and target investments seem to be somewhat unrelated requiring diverse levels of expertise.

*The diverse strategies also enhance portfolio diversification.*

## **GENERAL BACKGROUND**

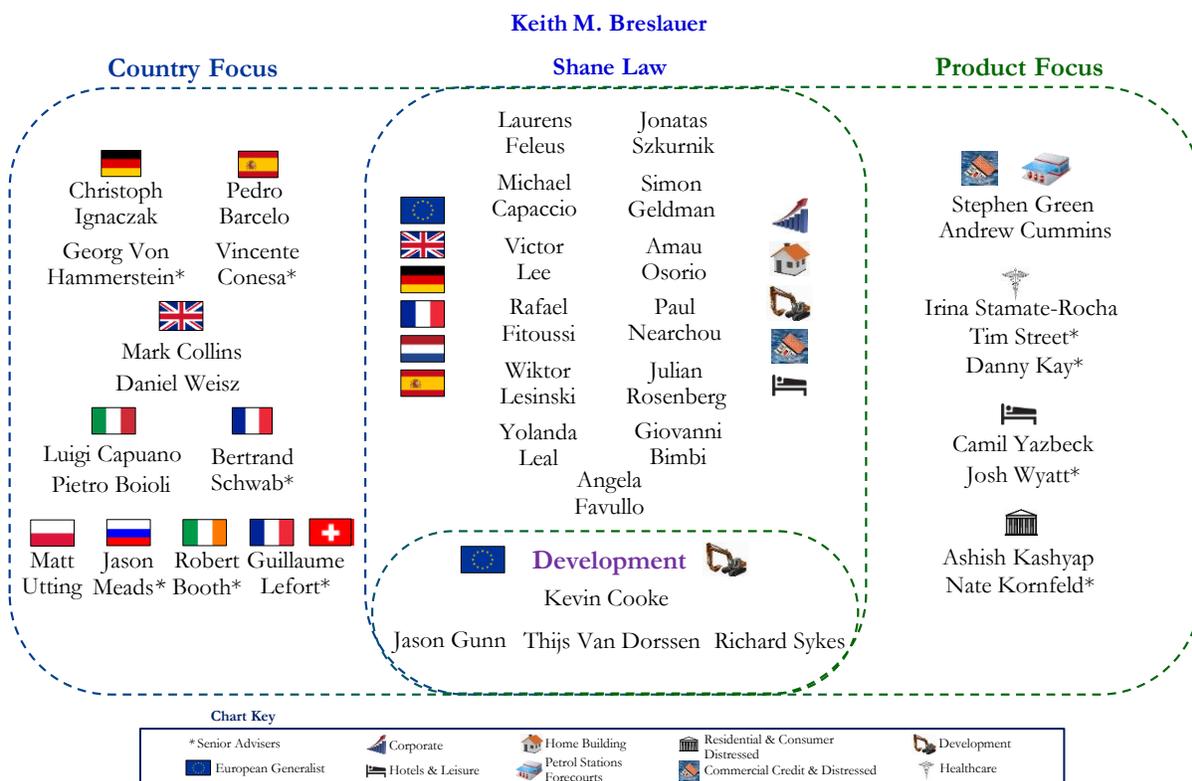
Patron was established in 1999 by Keith Breslauer to make value oriented and opportunistic real estate and real estate related investments primarily in Western Europe. Since its founding, Patron has raised over €2.5 billion of equity capital from over 100 primarily institutional investors including sovereign wealth funds, corporate pension plans and endowments across five funds and co-investment pools. As of January 2016, €2.2 billion of equity with over €9 billion of gross asset value has been invested predominately across Western Europe. Patron has operations across Europe with its main advisory offices in the UK and Luxembourg and additional offices in Germany, Spain and Italy.

Patron's team consists of a total of 73 dedicated professionals led by founder and Managing Director, Keith Breslauer. The team has expertise in acquisitions, asset management, development, finance and operations. Patron's in-house team is supplemented by its extensive network of long standing relationships with local participants, intermediaries, management teams and originators throughout Europe.

Patron's investment team consists of 41 investment professionals and senior advisers (the "Investment Team") who are highly skilled in their respective areas of focus, averaging 18 years of experience, with the Patron senior partners averaging 23 years of experience. Working on a granular, product and country specific basis, the Investment Team operates effectively as an owner operator and is therefore well positioned to capitalize on investment opportunities that arise as markets throughout Western Europe move through their respective cycles. In addition to the experienced product and country specialists, the Investment Team includes a dedicated in-house development team (the "Development Team") consisting of four professionals with significant property industry experience who contribute to the underwriting and ensure local partner performance for their respective investments. Patron's Investment Team has been highly cohesive as a result of low turnover and because many members of

the team spent a significant portion of their careers working together either at Patron or with Patron personnel in their previous roles.

Patron’s Investment Team:



The Investment Team works closely with a 31 person support team (the “Support Team”), which includes key legal, finance and tax, structuring and compliance professionals whose work is instrumental at both the origination stage and during the implementation of business plans. The Support Team also includes a fully staffed Luxembourg organization, which offers a valuable structuring advantage for many of Patron’s investments.

### INVESTMENT STRATEGY

The Fund will continue the successful strategy of its predecessor (Fund IV), focusing predominantly on Western Europe, as Patron believes this region remains an attractive investment environment in the near term, which will extend Patron’s proven historic performance in the region. The Fund will focus on opportunistic and value oriented investments, primarily targeting distressed and/or undervalued property and property related assets, loans and corporate entities. Specifically, it will target middle market transactions that typically require initial equity commitments in the range of €30 million to €90 million, and in certain cases, will expand to larger commitments based on the respective investment plans. The Fund may also opportunistically invest in attractive larger scale transactions that are consistent with this strategy and meet its risk adjusted return objectives. In these circumstances, the Fund may use

co-investment capital from the Fund’s investors, in priority, as utilized for relevant investments in prior funds. The Fund will aim to invest in non-competitive situations, originated through Patron’s extensive network of long standing relationships with local participants, financial institutions, investment banks, private equity partners, local advisers and agents.

**Target Return**

The Fund projects a gross IRR of 17% to 22% and a gross equity multiple of 1.7x.

**Use of Leverage**

The aggregate of property related borrowings of all portfolio companies shall not exceed 65% value of the properties unless such increased debt has limited covenants or pressure on cash flow. The aggregate property borrowings of any individual portfolio company shall not exceed 75% of the properties.

**Geographic Focus**

The Fund will have a primary focus on the United Kingdom, Germany, Spain, Ireland and the Netherlands and a secondary, opportunity driven focus on France and Italy.



**Target Investment Types**

Patron’s investments largely fall into four primary strategic themes: distressed, undervalued, non-core and complex, in all cases targeting opportunities with assets that are below fundamental intrinsic value:

**Fund Strategic Overview**

<b>Distressed</b>	<b>60-70%</b>
<ul style="list-style-type: none"> <li>• Bank driven sales/liquidations</li> <li>• Liquidity constrained operators/borrowers/developers</li> </ul>	
<b>Businesses with underlying property below intrinsic asset value</b>	<b>30-40%</b>
<ul style="list-style-type: none"> <li>• Asset based expansion with complete entity exit</li> <li>• Companies with strong cash flow supported by underlying real estate assets</li> <li>• Appropriate asset break up and sale with subsequent entity exit or shut down</li> </ul>	
<b>Institutional Non-Core (ex-distressed)</b>	<b>0-10%</b>
<ul style="list-style-type: none"> <li>• Property assets below intrinsic value deemed non-core by parent/owner</li> </ul>	
<b>Complex Situations</b>	<b>0-5%</b>
<ul style="list-style-type: none"> <li>• Attractive property fundamentals encumbered by complex situations</li> </ul>	

Within the four primary themes, Patron identifies granular micro themes, including specific asset subcategories and geographic markets, in which these features and other attractive market dynamics are most prevalent and where the benefit of Patron's depth and breadth of experience can be brought to bear most effectively. Given the dislocated economic and market environment, Patron expects to capitalize on such pockets of opportunity across Western Europe over the near term. Examples of primary micro themes for focus are:

### ***Primary Micro Themes***

- **Commercial Bank and Financial Institution Inventories:** European financial institutions have large portfolios of distressed commercial real estate loans and foreclosed real estate assets on their balance sheets that are considered non-core and have prioritized the need to liquidate the positions with increased urgency.
- **Liquidity Constrained Opportunistic Partners:** Opportunistic local partners that have identified opportunities but lack the necessary capital, given reduced local leverage.
- **Distressed and Overleveraged Developer/Investors:** Developers and investors that have come under pressure to liquidate assets due to overleveraging.
- **Public and Private Asset Rich Corporates with Liquidity Problems:** Such companies are typically capital constrained either due to lack of financing available in the debt markets or the limited capital of their founding sponsors.
- **Dislocated Mortgage Markets (residential and commercial) and Defaulted Securitized Assets:** Acquisition of portfolios, performing and non-performing as well as participating in certain mortgage backed loans and related opportunities.

Patron believes that its established platform as a pan-European opportunistic real estate investor, with experience and expertise in analyzing and underwriting diverse real estate assets in multiple geographies, its granular asset focus, local asset management capabilities and its ability to address complex corporate related issues, makes Patron ideally positioned to properly underwrite and capitalize on the current and anticipated deal flow.

### **MANAGEMENT FEES**

Management fees during the investment period are 1.75% per annum on the commitment amounts. After the investment period, the management fee is 1.50% per annum on the aggregated acquisition cost of any unrealized investments.

## TRACK RECORD

Patron has had four prior funds and one initial pool of capital, which was invested in one asset. The single asset Fund, referred to as the Patron Capital Captive Fund, was comprised of one investment totaling €105 million. This investment was realized in less than two years and returned over €244 million, generating a gross IRR of 75% and a gross equity multiple of 2.3x on invested capital.

Patron Capital, I L.P. (“Fund I”) closed in 2002 with \$110 million of commitments and generated an additional \$27 million of recallable commitments. Fund I’s investment period began in June 2001, and completed its last investment in November 2005. It was a U.S. dollar denominated fund and is fully liquidated. Fund I invested a total of \$114 million in 13 transactions in Western and Central Europe. The Fund realized \$216 million with a gross IRR of 53% and a gross equity multiple of 1.9x. In order to compare prior funds to Fund V, Patron provided returns for Western Europe only in Fund I – 46% gross IRR and gross equity multiple of 1.8x.

Patron Capital, II L.P. (“Fund II”) closed in October 2004 with total commitments of €303 million and generated an additional €76 million of recallable capital. Fund II’s investment period began in November 2005 and completed its last investment in February 2008. As of March 31, 2015, Fund II had invested a total of €354 million, plus an additional €26 million of co-investment capital in 11 investments and programs, with an additional €1 million identified for potential capital expenditure within existing investments. Fund II has realized €202 million to date (representing 57% of capital invested) and expects to realize an additional €138 million in proceeds for a projected gross IRR of 2% and a gross equity multiple of 1.1x. In order to compare prior funds to Fund V, Patron provided returns for Western Europe only in Fund II – 6% gross IRR and gross equity multiple of 1.1x.

Patron Capital, III L.P. (“Fund III”) closed in March 2007 with total commitments of €867 million. Fund III’s investment period began in July 2007 and completed its last investment in June 2012. As of March 31, 2015, Fund III comprised 16 investments and programs, and includes invested capital of €731 million and additional capital committed and approved to these transactions of €52 million. Fund III has realized €260 million to date (representing 35% of capital invested) and expects to realize an additional €727 million in proceeds for a projected IRR of 5% and a gross equity multiple of 1.3x. In order to compare prior funds to Fund V, Patron provided returns for Western Europe only in Fund III – 9% gross IRR and gross equity multiple of 1.6x.

*Note: These projected returns reflect a comparatively low 33% loan-to-cost ratio across the portfolio also given the slower pace of investments implemented during the financial crisis and the program format of many of the investments, the weighted average life of capital to date is 4.6 years and is 5.8 years for the overall weighted average life of the investments.*

Patron Capital, IV L.P. (“Fund IV”) closed in July 2012 with total commitments of €781 million, including the 1% from the General Partner with an additional €100 million discretionary dedicated co-investment pool raised from a single Fund IV investor. Patron IV invested only in Western Europe. As of September 30, 2015, Fund IV had invested a total of €450 million, plus an additional €275 million of co-investment capital (€45 million from the co-investment pool across 3 investments and €230 million from two third party investors in relation to the CALA Homes investment), in 17 investments and programs, with an additional €175 million identified for potential capital expenditure within existing

investments. Fund IV has realized €307 million through September 30, 2015 for a projected gross IRR of 28% and a gross equity multiple of 2.0x.

**SUMMARY OF OFFERING TERMS – SEE LIMITED PARTNER AGREEMENT FOR COMPLETE TERMS**

The following is a summary of the terms of the Patron Capital V, L.P Partnership Agreement as contained in the Patron Capital V, L.P Private Placement Memorandum. Capitalized terms used but not defined below have the respective meanings ascribed to such terms in the Patron Capital, V L.P. Partnership Agreement. This summary is not intended to represent a legal review of the documents.

1. Complete Name of Investment Management Organization (Include fund sponsor/parent company)	Patron Capital Advisers LLP (acting in its capacity as investment adviser to the Patron Capital Funds).
2. Complete Name of Fund	Patron Capital, V L.P.
3. Who are the principals of the fund sponsor?	Keith Breslauer
4. Key Person	Keith Breslauer
5. Primary Contact Information:	Keith Breslauer Patron Capital Advisers LLP One Vine Street London W1J 0AH Tel: +44 207 629 9417 Fax: +44 207 629 9418 keith@patroncapital.com  Shane Law Patron Capital Advisers LLP One Vine Street London W1J 0AH Tel: +44 207 629 9417 Fax: +44 207 629 9418 shane@patroncapital.com
6. Complete Name of General Partner	Patron Capital GP V L.P., a Jersey limited partnership acting by its general partner, Patron Capital GP V Limited, a limited company incorporated in Jersey.
7. Investment Manager of the Fund	The General Partner of the Fund will act as Fund Manager. Patron Capital Advisers LLP will act as Investment Adviser  Patron Capital Advisers LLP is an Investment Adviser and will provide portfolio and administrative services in relation to the Fund pursuant to an investment advisory agreement entered into between Patron Capital Advisers LLP and the General Partner which includes, without limitation, investigating, analyzing, structuring, due diligence, monitoring the performance of

	<p>investments and preparing the investment memorandum in respect of each potential investment for review by the General Partner and its investment committee. In addition to the above, Langham Hall, the Fund administrator in Jersey, will delegate to Patron inter alia the preparation of quarterly and year end reporting (including fair value calculations).</p> <p>Patron Capital Europe S.à.r.l. is also an Investment Adviser and will provide services in relation to the Fund pursuant to an investment advisory agreement entered into between Patron Capital Europe S.à.r.l. and the General Partner which includes, without limitation, origination of investment opportunities outside of the United Kingdom, assisting in negotiations and assessing the quality of professional advisers.</p> <p>The services provided by the Investment Advisers shall at all times be as set out in their respective investment advisory agreements agreed by the General Partner, such that they shall not have any power or authority of any description to enter into any transaction on behalf of or in any way to bind the General Partner or the Fund or any of them or to effect any dealings in Investments.</p>
8. Fund Risk>Returns Category (Core, Value Added or Opportunistic)	Opportunistic
9. Fund Return Objective (Include both Gross and Net of Fees and Carried Interest)	The Fund projects a 17% to 22% gross IRR and a gross equity multiple of 1.7x.
10. Year Fund Formed	2015
11. Size Of Fund (Max and Expected)	The Fund is targeting total commitments of €750 million (excluding the General Partner's Commitment as noted below) which may be increased to €1.1 billion at the discretion of the GP.
12. Fund G.P. Commitment	The General Partner will make a Commitment of at least 1% of the total Fund Commitments as at the Final Closing Date. The General Partner may also increase its undrawn Commitment from time to time to up to 5% of the then total undrawn Fund Commitments, with the option, at the discretion of the General Partner, to increase this amount until the end of the Investment Period.
13. Fund Term	The term of the Fund will be ten years, with up to two additional one-year extensions.
14. First and Final Closing Dates	The initial closing was in June 2015. The final closing will be no later than 12 months after the initial closing.
15. Commitment Period	No longer than 12 months.

16. Investment Period	The period from the Initial Closing Date to the earlier of (i) the date falling four years from the earlier of (A) the date on which Fund Commitments equal or exceed €500 million, and (B) the Final Closing Date; (ii) the date on which the General Partner deems that the Fund is in practical terms fully invested; and (iii) the date of any resolution pursuant to the Partnership Agreement to terminate the investment period.
17. Fiscal year-end of the fund	December 31.
18. Leverage (Include basis for how leverage is calculated and the target and maximum allowable.)	The aggregate of property-related borrowings of all Portfolio Companies shall not exceed 65% of the value of the properties unless such increased debt has limited covenants or pressure on cash flow. The aggregate property borrowings of any individual Portfolio Company shall not exceed 75% of the value of the properties.
19. Fund Credit Facility	Anticipated to have a €200 million credit facility with Royal Bank of Scotland International.
20. Property Types Permitted	All property types.
21. Geographic Focus	Predominantly Western Europe.
22. Target Markets	Focus on the United Kingdom, Germany, Spain, Ireland, the Netherlands and a secondary, opportunity driven focus in France and Italy.
23. Investment Diversification Restrictions/Concentrations	The Fund will not invest more than (i) 20% of Fund Commitments in a single property or portfolio company or (ii) more than 15% of Fund Commitments in portfolio companies organized and operating principally outside of Europe (Europe being those member countries in the European Union (EU) and the European Economic Area (EEA) from time to time, those EU acceding countries, candidate countries and potential candidate countries from time-to-time (as determined by the European Council) and also Switzerland), in each case (i) or (ii) above unless Advisory Committee approval is obtained.
24. Management Fees	<p>a) 1.75% annually on the commitment amount during the investment period.</p> <p>b) Thereafter, the fees will be 1.50% of the aggregate acquisition cost to the Partnership (excluding external leverage) of any unrealized investment.</p> <p>For this purpose, the winding up of a company in which an investment is held (other than pursuant to a restructuring) and permanent write offs or the write down of an investment which is no longer actively managed (for so long as it remains written down and not actively managed) shall be treated as realizations and partial realizations will be included proportionately. The General Partner's Share is payable semi-annually in advance from drawdowns of the Limited Partners' unfunded Commitments or out of Partnership assets.</p>

25. Preferred Return/Hurdle Rate	9%
26. Distributions/Carried Interest	Subject to the Limited Partners first receiving the acquisition cost of each realized investment, the acquisition cost of each unrealized but written off investment, a 9% preferred annual return on the acquisition cost of each realized investment and their pro-rata proportion of fees and expenses and a 50% catch-up, the General Partner will receive a carried interest of 20% of profits.
27. Clawback	There will be a clawback of any carried interest distributed to the General Partner, net of taxes paid or payable, to the extent that Limited Partners have experienced a shortfall or the General Partner has received in excess of amounts that should have been distributed to it.
28. Placement Agent Fees	Placement agent fees are for the account of the General Partner.
29. Offering/Organizational Expenses	The Partnership will bear all or, in the event that any Parallel Funds are formed, its pro rata proportion of, all legal and other expenses incurred in the formation of the Fund, the General Partner and the offering of Interests in the Fund (other than placement agent fees and expenses), up to €2 million plus any applicable Value Added Tax (VAT).
30. Reporting schedule to L.P. (quarterly/annual)	<p>Patron recognizes the importance of regular, timely and accurate reporting as critical to the integrity of the investment process and its relationships with its investors. Limited Partners will be provided with detailed, frequent communications, including asset-by-asset reporting, investor capital account statements, financial statements, investment activity progress reports, updates on any significant activities in the portfolio and the aforementioned portfolio management reports, all via the secure section of the Patron website. Quarterly financial statements and audited annual statements are prepared in conformance with the highest quality standards for the Fund and for its investors.</p> <p>The Fund will furnish the following information on an annual basis, within 120 days of fiscal year-end: (i) an annual report containing audited financial statements of the Fund; (ii) an investor specific capital account statement; and (iii) a statement of any transactions between the Fund and any related entity (included within the audited financial statement).</p> <p>The Fund will also furnish the following information on a quarterly basis, within 45 days of quarter-end: (i) unaudited financial statements for the period ending; (ii) asset-by-asset reports, and (iii) an investor specific capital account statement.</p> <p>The Fund will also prepare, or cause to be prepared, and transmit within 5 months after the close of each Accounting Period of the</p>

	<p>Partnership, a report setting forth in sufficient detail transaction effected by the Partnership during such Accounting period as shall enable each Partner to prepare it U.S. Federal income tax returns (K-1 equivalent information).</p> <p>In addition, Patron has an extensive secure website that outside of the quarterly and annual reporting schedule provides updates on its investments (financial, board packs, minutes, asset management reports, corporate/asset level updates, strategy, other), portfolio level information, including above quarterly and annual reporting, risk reports and debt schedules, and pipeline of new activity. In addition a Key Next Steps document is also produced updated every 2 weeks. This document provides a summary of each existing investment in the form of key bullets with the key action points/areas of focus. For the older investments it also details the main achievements/actions over the previous 12 months and is a useful tool for investors who want a quick snapshot of a specific investment or fund activity. On top of all this there is an additional password protected investor portal for its investors to access their own financial information including capital account statements, capital calls, distributions, annual and quarterly reports and K-1 equivalent information.</p>
31. Key Person Provision	<p>In the event that at any time prior to the end of the Investment Period Keith Breslauer either: (i) ceases to be actively involved in the business of the Investment Advisers (other than as a result of (iii) below); (ii) ceases to devote substantially all his business time to the extent necessary to properly manage the affairs of the Partnership (other than as a result of (iii) below and excluding time required in respect of any other vehicles related to or in the Fund and in respect of any other fund or pool of capital managed or advised by the Investment Advisers or by any affiliate of the Investment Adviser); or (iii) is continuously incapacitated for at least 6 months (each a “Keyman Event”), then the General Partner shall be suspended from issuing any additional drawdown notices with respect to new investments and a Fund suspension period shall commence. The General Partner will notify the Limited Partners of any circumstance whereby the Keyman has been continuously incapacitated for a period of three months, if the General Partner reasonably believes it could substantially adversely affect the Keyman’s capacity. The Fund suspension period shall continue for a period of six months and during such period Partners in the Fund may:</p> <p>(i) by the consent of the Partners representing two-thirds of aggregate Fund Commitments, approve the resumption of</p>

	<p>drawdowns for new investments (which will immediately end the Fund suspension period); or</p> <p>(ii) approve a resolution between the Partners holding 80% of Fund Commitments electing to terminate the Investment Period.</p>
32. Co-Investment Policy	<p>Patron is also considering establishing a co-invest vehicle from the Fund's Limited Partners to address potentially larger investments. Details of this will be made available upon request.</p>
33. G.P. Removal (with and without cause)	<p><u>Termination of Investment Period Without Cause</u></p> <p>If, at any time after the second anniversary of the Initial Closing Date, Limited Partners in the Fund between them holding 80% of Fund Commitments so resolve, the Investment Period shall be terminated and the General Partner shall not be permitted to issue any additional drawdown notices for new investments except for investments which are in process or have been approved by the Investment Committee prior to the termination of the Investment Period and may continue to make follow-on investments.</p> <p>In the event the Investment Period is so terminated as set out above, the General Partner shall be entitled to compensation equal to one and a half times the General Partner's Share (as defined below) in respect of the accounting period immediately prior to the accounting period in which the Investment Period is terminated.</p> <p><u>Early Termination / Removal of the General Partner</u></p> <p>The Partnership shall be automatically terminated upon the insolvency or liquidation of the General Partner.</p> <p>The Partnership may be terminated or the General Partner may be removed for cause by a 66 2/3% resolution of Partners in the Fund, and as a result all future Carried Interest payable to the General Partner shall be reduced by 50%.</p> <p>The Partnership may be terminated or the General Partner may be removed for no cause by an 80% resolution of Partners in the Fund, and as a result the General Partner will receive a priority payment of its projected Carried Interest, as well as its interest as an investor and one and a half times the General Partner's Share (in respect of the accounting period immediately prior to the accounting period in which the Partnership is terminated) as compensation for early termination of the Partnership, or the General Partner's removal, as applicable.</p>

	<p>Upon termination of the Fund, no additional business shall be conducted except for such actions as shall be necessary for the winding up of the affairs of the Fund and the distribution of the assets of the Fund amongst the Partners. The General Partner (or other person so appointed) shall cause the Fund to pay all debts, obligations and liabilities of the Fund and all reasonable costs of liquidation and the remaining proceeds and assets to be distributed amongst the Partners in the same proportions as the distributions during the life of the Fund.</p>
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## BIOGRAPHIES

**Keith M. Breslauer – Managing Director & Senior Partner:** Mr. Breslauer founded Patron Capital in 1999 and is the Managing Director of Patron Capital Advisers LLP (and held a similar position in its predecessor vehicles), the investment adviser to the Patron Capital Funds (including Patron Capital Captive Fund, Funds I - IV). In addition to his overall leadership responsibility, Mr. Breslauer is primarily responsible for leading the origination efforts of all Patron funds.

Mr. Breslauer began his career in 1988 at Lehman Brothers, where he worked originally in the Financial Institutions Group in partnership with the Mortgage Trading Group. In addition to various responsibilities related to corporate finance and capital markets, he was involved in and led many transactions in the United States distressed markets of the 1980s and 1990s. In 1993, while with Lehman Brothers, Mr. Breslauer moved to London to target distressed assets in Europe and to assist in the creation and leadership of the Principal Finance Group, established to invest Lehman Brothers' capital in financial institutions and property assets and companies. He also served as the co-head of the International Mortgage and Real Estate Department until 1997. In 1997, Mr. Breslauer left Lehman Brothers to create and manage an investment fund focusing on smaller European property opportunities. As a bridge to the ultimate formation of Patron, he established and managed Capstar Holdings Limited, a company organized in London to originate investments on an exclusive basis for the Lone Star Opportunity Fund (I), a primarily United States based real estate fund.

Mr. Breslauer's background includes numerous investments in both property and mortgage assets and operation businesses (including hotels, servicing businesses and mortgage institutions), on a pan-European basis. He has led or assisted in the acquisition of over \$20 billion in assets in several European countries and in the United States. Additionally, he has broad experience in corporate transactions ranging from mergers and acquisitions to equity and debt capital raising and structured finance.

He holds a Master of Business Administration (MBA) degree from the University of Chicago and a Bachelor of Science (BSc) degree from the New York University School of Business. Mr. Breslauer has resided in London for the past twenty-one years with his wife and four children and is a citizen of the United States.

**Shane Law – Chief Operating Officer & Senior Partner:** Mr. Law formally joined Patron in 2003, after working closely with Patron since 2000 on the Fund I, Simon Storage investment in his role as investment banker at Commerzbank Securities, Patron’s adviser on that transaction. Mr. Law’s COO responsibilities primarily include managing the day-to-day operations of Patron, oversight and support to the Patron team across all investments and processes, investor related matters and recruitment and overall support to the Investment Team. In addition to his COO role, Mr. Law focuses on Patron’s corporate investments and related responsibilities. Prior to joining Patron, he spent six years in investment banking focusing on European mergers and acquisitions, initially at Svenska Handelsbanken and subsequently at Commerzbank Securities. He began his professional career at Ernst & Young (London), where he spent three years as a chartered accountant. Mr. Law holds a Bachelor of Science (BSc) degree in Mathematics from the University of Durham and he is a qualified Chartered Accountant (ACA). Mr. Law resides in England and is a citizen of the United Kingdom.

### **Investment Team**

**Mark Collins – Chairman of UK Investments & Senior Partner:** Mr. Collins joined Patron in 2012 with a focus on the UK real estate market. Mr. Collins has extensive experience in the property industry, including several main Board roles and most recently as Managing Director of Lloyds Bank Corporate Real Estate Business Support Unit. Prior to this, he was COO at the UK's largest property company, Land Securities Group PLC, Managing Director for UK and Europe at GE Capital Real Estate and Assistant General Manager of Property Advisory at Sumitomo Bank. Mr. Collins knowledge of the UK's property industry, high profile firms and their CEO's has been extremely beneficial for Patron in establishing new relationships and investment opportunities. In addition given his extensive experience across various company boards and corporate governance related matters, Mr. Collins currently acts in a personal capacity as Chairman on both the Generator and CALA homes Investments within Fund III and Fund IV respectively. Mr. Collins also has extensive experience at the operational and transactional levels. He was responsible for managing major change initiatives at Land Securities and on the transactional side, he was instrumental in putting together a number a number of significant property deals, including leading the first ever corporate acquisition for Land Securities of TOPS Estates PLC and creating a £540m Joint Venture with British Land. He also originated the largest ever real estate take private deal in Europe with MEPC in 2000. Mr. Collins is a chartered surveyor by training and holds a Bachelor of Science (BSc) degree in valuation and real estate management from University of West England. Mr. Collins resides in England and is a citizen of the United Kingdom.

**Stephen Green – Senior Partner, Special Situations:** Mr. Green joined Patron in 2009 as a Senior Partner responsible for special situations, including the origination and underwriting of real estate debt related investments, restructurings, and complex corporate opportunities. Prior to joining Patron, Mr. Green worked at Merrill Lynch for 12 years, for much of this time as Managing Director and from 2000 as Head of the Merrill Lynch European Commercial Real Estate Finance business, which covered investment property and operating real estate loan origination, underwriting, syndication and securitization. In addition to personally leading many of that group’s larger transactions, Mr. Green was responsible for the overall activities of a team of 55 professionals in London, Frankfurt and Milan. Prior to joining Merrill Lynch in 1997, Mr. Green worked for 4 years with Mr. Breslauer in the real estate team at Lehman Brothers. Mr. Green holds a Bachelor of Arts (“BA”) (Hons) in Physics from Oxford University and qualified as a Chartered Accountant with Ernst & Young before joining Lehman Brothers. Mr. Green lives in London and is a citizen of the United Kingdom.

**Pedro Barcelo – Managing Director & Senior Partner, Spain:** Mr. Barcelo is responsible for the management of Patron’s office in Barcelona and has responsibility for the origination, due diligence, execution, structuring, financing and asset management of investments in Spain. Mr. Barcelo formally joined Patron in 2004, after working with Patron during that year on the refinancing of the Hotel Arts in his role as loan originator at Hypo Real Estate Bank International. Mr. Barcelo spent three years at Hypo Real Estate Bank International focusing on project & corporate loan origination, initially in London and subsequently in Madrid. Previously, Mr. Barcelo worked for one year at Enron in the underwriting department in London and also worked for two years at Hines in the development of the Diagonal Mar mixed use project in Barcelona. Mr. Barcelo holds a degree in Civil Engineering from the Polytechnic University of Catalonia and a MBA degree from IESE (Barcelona). He speaks Spanish, Catalan and English, resides in Barcelona and is a citizen of Spain.

**Luigi Capuano – Managing Director & Chairman, Italy:** Mr. Capuano formally became an advisor to Patron in June 2006, with an initial focus on institutional banking relationships. In 2010, he assumed day-to-day management of the Patron Italy team, with responsibility for new business and the management of existing investments. Prior to joining Patron, Mr. Capuano spent most of his professional career in the Italian banking system where, from 1990, he held senior management positions including General Director of San Paolo di Torino, Chief Executive of Banca Popolare di Novara, Chief Executive of Italfondionario, and Group Head of the Italian Bank Division of Bank Group Banca Intesa. Mr. Capuano holds a Degree in Jurisprudence from the University of Turin. He is the President of the National Tax Collectors Syndicate and of SITEBA (Bank Technology Systems). He is also a member of the Management Board of various commercial and service companies and is a member of the National Auditors Register. Mr. Capuano is a citizen of Italy and speaks Italian and English.

**Laurens Feleus – Investment Director & Senior Partner:** Mr. Feleus joined Patron in January 2005 and focuses on investments in the Benelux and Nordic countries. He also focuses on Patron’s activities in residential real estate and financial institutions and is responsible for Patron’s activities on behalf of certain investors in India. Mr. Feleus started his career in investment banking at Salomon Smith Barney (now Citigroup Investment Bank) in London in 2000. Before joining Patron, he also worked for a privately owned United Kingdom/Swiss based investment banking boutique specializing on medium sized private equity deals. He holds a Master of Arts in Financial Economics from the University of Amsterdam. He is fluent in English, German, Dutch (Flemish) and French. Mr. Feleus resides in England and is a citizen of The Netherlands.

**Christoph Ignaczak – Investment Director & Senior Partner, Germany:** Mr. Ignaczak joined Patron in 2012 and focuses on German investments, with responsibilities including origination, due diligence, execution, asset management and business plan implementation. Prior to joining Patron, Mr. Ignaczak worked at Acrest Property Group, a real estate development and asset management company based in Berlin, Germany, as Director where he was primarily in charge of financing and investment analysis. Previously, Mr. Ignaczak worked for more than 4 years in the real estate finance team at Merrill Lynch and started his career at Eurohypo. Mr. Ignaczak graduated from the University of Cologne with a Business Administration Degree and is CFA charterholder. Mr. Ignaczak is fluent in English and German. Mr. Ignaczak resides in England and is a citizen of Germany.

**Jonatas Szkurnik – Investment Director & Senior Partner:** Mr. Szkurnik joined Patron in August 2007. Mr. Szkurnik focuses on Patron's direct investments in real estate, asset backed operating companies and corporate investments, with responsibilities including deal sourcing, execution, structuring, financing, due diligence and asset management. To date, Mr. Szkurnik has been involved in investments in residential, commercial and healthcare sectors, amongst others. Mr. Szkurnik started his career in Brazil in investment banking and holds a BSc in Civil and Industrial Engineering from Pontificia Universidade Catolica (PUC-Rio) and a MBA from London Business School. He is fluent in English, Spanish and Portuguese. Mr. Szkurnik is a citizen of Brazil.

**Daniel Weisz – Investment Director & Senior Partner:** Mr. Weisz joined Patron in August 2006 and focuses on Patron's principally commercial real estate investments in the UK and France, including direct real estate and asset backed operating companies, with responsibilities including origination, execution and asset management. Prior to joining Patron, Mr. Weisz's career included investment banking focused on Alternative assets investment advisory at JP Morgan, alternate assets fund and equity placement, and direct European real estate and real estate related investment. He holds a BSc in Accounting and Finance from the London School of Economics. Mr. Weisz is fluent in French and Hebrew and resides in England.

**Michael Capaccio – Investment Director & Senior Partner:** Mr. Capaccio joined Patron in 2004 in the role of senior originator and asset manager for new investments in Romania and Italy. Mr. Capaccio was previously with Lehman Brothers in the United Kingdom and Italy, where he was co-head of the Italian real estate principal business. During his five year tenure with Lehman Brothers, Mr. Capaccio originated or was involved as a senior manager in more than €3 billion of equity, mezzanine and senior debt investments in Italy, France and Central Europe. He began his professional career at Bankers Trust Company in New York and Chicago and has over 30 years of experience in property investment, finance and development in the US and Europe. Mr. Capaccio holds a BA degree cum laude in Economics and Political Science from Rutgers University. Mr. Capaccio resides in Italy. He speaks English, Italian and French and is a United States citizen.

**Ashish Kashyap – Investment Director:** Mr. Kashyap joined Patron in March 2009 and focuses on Patron's investments in residential real estate debt, consumer debt and financial institutions. Prior to joining Patron, he spent two years at Merrill Lynch's structured finance group in London, where he was responsible for analytics for the group's residential real estate investments. He also has five years' experience through various operational roles at Capital One in the United States. Mr. Kashyap holds a Bachelor of Technology (B Tech) degree in Computer Science and Engineering from the Indian Institute

of Technology (India) and a Masters of Business Administration (MBA) degree from Insead (France and Singapore). Mr. Kashyap resides in England and is a citizen of the United Kingdom.

**Matthew Utting – Investment Director:** Mr. Utting joined Patron in 2000 and has primary responsibility for all investments in Poland. He worked previously in various analytical positions for Bank of Nova Scotia, Citibank and Bank of Montreal. Mr. Utting holds a Master of Arts degree (“MA”) in Economics and a BA with honours in Economics (Applied Studies) from the University of Waterloo. Mr. Utting resides in England, is fluent in French and conversationally proficient in Spanish, Italian and German and is a citizen of the United Kingdom and Canada.

**Camil Yazbeck – Investment Director, Hospitality:** Mr. Yazbeck leads all aspects of origination, acquisition, underwriting, execution and asset management of new investment opportunities as well as the strategic and operational management of assets in Patron's hospitality sector investments. Prior to joining Patron, he spent over 20 years in the hospitality industry, focusing on all aspects of hotel operations in a variety of roles throughout the world. He held several senior positions with international hotel companies, including Operations Director, Group and Area General Manager. He acquired extensive experience moving up the ranks in hotel operations, in hotel pre-openings as well as the extended stay hotel market, within independent and branded hotels including Le Meridien, Crowne Plaza, Holiday Inn, Mercure, Best Western, The Ascott Group, Citadines and Staybridge Suites. Mr. Yazbeck holds a Master of Business Administration (MBA) specialized in Hospitality Management from IMHI: Institut de Management Hôtelier International (A joint program of Cornell University (USA) and ESSEC Graduate School of Management, Paris, France), and a French BTS (Bachelor equivalent) in Hotel and Restaurant Management from the Lycée Hôtelier Château Bellerive (Grenoble Academy, Vienne, France). Mr. Yazbeck resides in England and is a citizen of France.

**Andrew Cummins – Vice President, Special Situations:** Mr. Cummins joined Patron's Investment Team in 2011 and focusses on investment across Europe, particularly the UK and Nordic Countries. Mr. Cummins is responsible for deal sourcing, execution, structuring, financing, due diligence, asset management and business plan implementation, with an emphasis on special situations, including real estate debt related investments, restructurings, and complex corporate opportunities. Prior to joining the Investment Team, Mr. Cummins trained as a Barrister, during which time he worked part-time in Patron's in-house legal department. Mr. Cummins was educated at the University of Edinburgh (Master of Arts (Honours), majoring in Politics and Economics; Master of Science in European and International Relations), City University (Graduate Diploma in Law) and the Inns of Court School of Law (Bar Vocational Course, Postgraduate Diploma in Professional Legal Skills). Mr. Cummins resides in England, is proficient in Swedish and is a citizen of the United Kingdom.

**Simon Geldmann – Vice President:** Mr. Geldmann joined Patron in 2007 working part-time during his university studies and joined full-time after graduating in 2010. Mr. Geldmann focuses on Patron's German activities with responsibilities including origination, execution, structuring, financing, due diligence and asset management. To date, Mr. Geldmann has been involved in investments across most asset classes in Germany as well as in the healthcare sector in the UK. Prior to joining Patron Mr. Geldmann worked as an intern in the shipping and property industries in China and Germany. Mr. Geldmann holds a Bachelor of Arts degree with honours in Business Management from the University of Westminster. He is fluent in English and German. Mr. Geldmann resides in England and is a German citizen.

**Victor Lee – Vice President:** Mr. Lee joined Patron in August 2008 and focuses primarily on UK investments with responsibilities including origination, due diligence, execution, structuring, financing and asset management. Prior to joining Patron, Mr. Lee attained a Bachelor of Arts degree with honours in History from Oxford Brookes University. Mr. Lee resides in England. He is proficient in French and is a citizen of the United Kingdom and the United States.

**Irina Stamate-Rocha – Vice President:** Ms. Stamate-Rocha joined Patron in 2011, with responsibilities in deal sourcing, execution, structuring, financing, due diligence and asset management of healthcare related investment opportunities. Prior to joining Patron, Ms. Irina Stamate-Rocha worked in investment banking at Rothschild, Macquarie Capital Advisers and Fortis Bank (Brussels). Her experience includes the origination and execution of transactions for private equity and infrastructure funds. Ms. Stamate-Rocha holds a Masters in Finance degree from Vlerick Leuven Gent Management School and she obtained a Bachelor in Economics from the Academy of Economics, Bucharest. Ms. Stamate-Rocha resides in England and is a citizen of Romania.

### **Senior Advisers**

Senior advisers are senior expert independent individuals who provide services to and/or invest directly into the portfolio companies and are remunerated directly by portfolio companies or the Partnership.

**Robert Booth – Senior Adviser:** Mr. Booth has worked with Patron since 2007 when he began working on a joint venture with Patron through Capital Park in Warsaw. Since early 2008 Mr. Booth's primary responsibilities have been the origination and management of investments for Patron in Ireland, with a focus on distressed assets and businesses and utilizing his substantial relationships within the banking sector. Prior to working with Patron, from 2001 to 2007 Mr. Booth worked in the data centre industry where he was founder and CEO of Global Voice Networks, working in conjunction with Hewlett Packard Corporation to market data centre and outsourcing services to corporate tenants such as Google, Amazon, Microsoft, Bank of Ireland and Hutchison Whampoa. Prior to 2001, Mr. Booth established Trinity Group Limited, one of Ireland's largest computer resellers. The company, which had 45 staff and revenues of £25 million (Irish pounds), sold products on behalf of HP, Compaq, Sun, Oracle and Microsoft. He was also involved in the establishment of Trinity Commerce, an e-commerce development company which was primarily sold to Eircom. Mr Booth holds a Bachelor of Commerce Degree from University College Dublin. Mr Booth resides in Dublin and is a citizen of Ireland.

**Daniel Cohn – Senior Adviser (Legal):** Mr. Cohn is a corporate finance lawyer with over 15 years of experience and has worked with Patron for the last 9 years. Mr. Cohn has led large scale corporate and real estate transactions and managed teams of lawyers and other professionals in all major European jurisdictions. His range of experience includes real estate, private equity, banking and finance, M&A, MBOs & LBOs, public markets, public-to-private and joint venture transactions in multiple industry sectors across Europe. Prior to working with Patron, Mr Cohn was a senior lawyer with Berwin Leighton Paisner where he had been focusing on large scale corporate property and principal finance transactions for major United Kingdom banks and private equity funds. Mr. Cohn holds an MA in Political Science and European Law from Johann Wolfgang Goethe University, Frankfurt. He studied

law in Manchester. Mr. Cohn speaks Hebrew and German fluently, resides in England and is a citizen of Germany.

**Daniel Kay – Senior Adviser:** Mr. Kay has worked closely with Patron since 2008. His primary responsibilities include originating and managing investments for Patron in the real estate backed European Healthcare sector, and with Mr. Street and Patron co-founded Gracewell Healthcare in 2010. Mr Kay spent the early part of his career at Citicorp Investment Bank, later moving to HSBC working within its property finance division. In 1997 he joined Lend Lease Corporation as a Principal within its Private Equity division making real estate related investments including healthcare related joint ventures. He subsequently joined Trizec Hahn Europe, and then established a joint venture with Safeland plc, to develop a self-storage business in Italy. In 2003, through DKS Trading Limited, Mr. Kay identified and was responsible for the acquisition of Ten Harley Street Limited, a business providing flexible accommodation and services to medical practitioners through a freehold building in London's Harley Street. In 2007, in partnership with management, Mr. Kay negotiated, structured and closed the MBO of Medical Direct Group plc, one of the United Kingdom's leading providers of medical services to the United Kingdom life insurance sector, bringing in Investec Bank as a lead investor in the MBO. The business was sold to Capita plc in 2012. Mr. Kay remains a non-executive director of DKS Trading. He has BSc from the London School of Economics and resides in England and is a citizen of the United Kingdom.

**Nathan (“Nate”) Kornfeld – Senior Adviser:** In the last eight years, Mr. Kornfeld has taken on a more active role within Patron, advising the firm's activities in residential mortgage backed investments, including the UK Residential Distressed Program. Mr. Kornfeld was President of GMAC Institutional Advisors, a \$14 billion investment management company specializing in commercial real estate at GMAC Commercial Mortgage (now Capmark) until 2005. He previously spent two years at GMAC-RFC, where he established the GMAC Venture Capital Fund to invest in residential mortgage technology companies. Mr. Kornfeld had previously founded the Phoenix Finance Group, a specialty finance company that acquired and collected delinquent credit card debt and was subsequently sold to GMAC in 1998. Between 1987 and 1996, Mr. Kornfeld worked as a managing director at Lehman Brothers, where his responsibilities included mortgage trading management, fixed income risk management and asset backed lending and worked closely with Mr. Breslauer on several closed and pursued investments. Prior to this, he worked at Salomon Brothers in the research department, and later at the mortgage trading desk. Mr. Kornfeld is a citizen of the United States, a personal friend of Mr. Breslauer and has worked with him for over 25 years.

**Jason Meads – Senior Adviser:** Mr. Meads has worked closely with Patron since the firm's inception and for the last three years has worked as a part time adviser directly on the asset management of the BV Retail investment (Russia). Mr. Meads was previously a shareholder in a property company in Moscow, Russia, providing development, letting, investment and management services for a number of projects, including the Usadba centre office development (65,000m<sup>2</sup>) and the Novinsky Bulvar office and retail development (73,000m<sup>2</sup>). Prior to Stolny Grad, Mr. Meads worked in the U.K. as a portfolio manager for Rugby Estates for three years. He has a Bachelor of Science degree (BSc) in Real Estate Finance from the City University (London). Mr. Meads resides in Jersey. Given his significant experience within the property industry, his direct experience with Patron and his Jersey residence, Mr. Meads will also act as a board member of the General Partner. He is fluent in Russia, German and French and is a citizen of the United Kingdom.

**Farhod Moghadam – Senior Adviser (Legal):** Mr. Moghadam is a corporate lawyer with over 13 years of legal experience and has worked with Patron for the last 3 years. He has advised a wide variety of public and private enterprises with operations in Europe, the Middle East, Africa, Southeast Asia and North America. His experience has included private equity, joint ventures, M&A, banking and finance and capital markets transactions with an industry sector focus on real estate, hospitality, healthcare, oil & gas and renewable energy. Previously Mr. Moghadam was a senior lawyer at Lawrence Graham where he had spent 8 years in their Corporate Group. Mr. Moghadam holds an honours degree in Law from the University of London (Queen Mary College) and spent a year studying French law at the University of Paris (Panthéon-Assas). Mr. Moghadam speaks Farsi and French to a high level and basic German. He resides in England and is a citizen of the United Kingdom.

**Bertrand Schwab – Senior Adviser:** Mr. Schwab has worked closely with Patron since the firm's inception and with Mr. Breslauer for the past eighteen years. His primary role includes originating and managing investments for Patron in France. In particular, he led the acquisition of Malakoff, Vectrane and the Hotel Arts, Barcelona. Previously, Mr. Schwab managed a holding company owned by Deutsche Bank, GE Real Estate and JER, which comprised a large French publicly listed company (Bail Investissement) with approximately €2 billion of logistic, retail and office buildings located primarily in France and an asset management company with 150 employees. Before that, Mr. Schwab was Managing Director and Partner of the Deutsche Bank Real Estate Private Equity group. In that position, he led numerous transactions valued at over €4 billion, including the acquisition and management of Filo SA, a publicly listed Spanish shopping centre company, the acquisition of the ISM group and the acquisition of real estate asset portfolios in Italy, Spain, and Portugal. Between 1995 and 1997, he was largely responsible for the development of the real estate franchise of Bankers Trust in France, where he helped develop the distressed loan and asset sale business, leading transactions including the sale of assets for Barclays Bank (where he met Mr. Breslauer and Ms. Langford), UAP, GAN, Credisuez and CDR. Mr. Schwab also advised CDR in the sale of Renta Inmobiliaria, a Spanish property company, the financing of Credit Bail portfolio, and the merger between two large French utility companies: Suez and Lyonnaise des Eaux. Prior to that, he worked at Paribas Capital Markets in London and Tokyo, trading interest rate and currency derivatives. Mr. Schwab is a former board member of Vectrane, Bail Investissement, Selectibanque, Selectibail and Filo – listed companies in France and Spain. He is a graduate of Hautes Etudes Commerciales (HEC), (France), where he majored in Finance. Mr. Schwab resides in England. He is a French citizen and is fluent in French, English and Spanish.

**Tim Street – Senior Adviser:** Mr. Street has worked closely with Patron since early 2010. His primary responsibilities include originating and managing investments in the real estate backed European Healthcare sector, and with Mr. Kay and Patron co-founded Gracewell Healthcare in 2010. Mr. Street has over 15 years of experience in the European healthcare market during which he has been involved in a number of management buy-outs and over £3.1 billion of successfully completed transactions and developments for investors such as 3i, Goldman Sachs and Allianz Capital Partners. Prior to joining Patron, Mr. Street was a Managing Director at Macquarie Capital Advisers, leading Macquarie's European Healthcare Advisory Services. Mr. Street has held various Board level positions at Westminster Healthcare (acquired by Barchester), Priory and Four Seasons Healthcare. Mr. Street has been directly involved in the management and development of services in the elderly care, mental health, diagnostics and rehabilitation sectors and has developed and led successful commercial relationship with the NHS and Local Authorities. Mr. Street is Chartered Accountant and holds a Master of Business Administration (MBA) degree from Cranfield University – School of Management,

England. He obtained a Bachelor of Business with majors in Accounting, Business Law and Taxation from Queensland University of Technology, Australia. Mr. Street resides in England and is a citizen of Australia.

**Georg von Hammerstein – Senior Adviser:** Mr. von Hammerstein joined Patron in May 2013 to originate new investments in Germany and German speaking countries and in helping drive exits for the current portfolio. Mr. von Hammerstein has over 25 years of experience in the German and European real estate industry. Prior to Patron, he was at Pramerica Real Estate, the European arm of the US American Prudential Inc., where he spent 14 years, the last 6 years as the European Chief Investment Officer and Chairman of the Investment Committee. He coordinated the transactions for all investment strategies from core to opportunistic for a variety of closed and open ended funds all across Europe including Russia and Turkey. Prior to that Mr. von Hammerstein worked for 5 years with Helaba, responsible for their real estate equity operations. He initiated Helaba's subsidiary for joint venture developments and investments predominantly in Germany. Before that he developed residential properties on own account and held positions in real estate subsidiaries of Commerzbank and of Deutsche Bank/ECE Projektmanagement. Georg holds an MSc degree in economics (Diplom Kaufmann) from WHU Otto Beisheim School of Management, Koblenz and is fluent in English and French. He resides in the UK and in Germany.

**Josh Wyatt – Senior Adviser:** Mr. Wyatt joined Patron in 2005 and focuses on all aspects of origination, acquisition and management of hospitality sector investments. Since late 2014 Mr. Wyatt spends the majority of his time on the Generator Investment in his role as Chief Strategic Officer and also retains focus on supporting the investment teams in Patron's existing hospitality investments and advising on new opportunities. Prior to joining Patron, he spent seven years in strategy consulting, focusing on financial, operational and property related issues within the Higher Education sector. Initially at Accenture and American Management Systems for three years, Mr. Wyatt subsequently co-founded the Armada Group in 1999, which was later sold in 2003 to Alchemy Ventures in the United Kingdom. Mr. Wyatt holds a BA degree in International Studies and Economics from the American University (Washington DC) and an MBA from Harvard Business School. Mr. Wyatt is a citizen of the United States.



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## KENTUCKY RETIREMENT SYSTEMS INVESTMENTS

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TO: Kentucky Retirement Systems Investment Committee

FROM: Andy Kiehl, Real Assets / Real Estate

DATE: February 2, 2016

SUBJECT: European Real Estate Search Process and Manager Recommendation

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### **Executive Summary**

KRS Investment Staff is recommending a €50 million investment in a European Real Estate commingled fund, ***Patron Capital V, L.P.*** to be prorated, according to current percentage allocations for both the pension and insurance fund and the underlying plans. Real Estate investments are funded over a number of years and we further recommend that these dollars be taken from available fund assets whenever capital is called. This Fund will make value added and opportunistic real estate investments in Western Europe. The fee for this investment fund will be a ***1.75% management fee on the commitment amount during the investment period (investment period is 4 years from initial close date) and 1.50% management fee on the aggregate cost of any unrealized investment for the remaining term of the fund (6 years with up to 2-1 year extensions) with a 20% performance fee over a 9% preferred return with a 50% catch-up provision.***

KRS staff has been monitoring and evaluating the European real estate opportunities since early 2015 and we feel that this investment will provide several benefits to our overall real estate portfolio portfolios. First, we expect the investment to return between 17% and 22% gross IRR over a full market cycle net of fees. Secondly, diversification into the developed Western European market with a seasoned management team should help to mitigate risk of international investments. Many of KRS's peers are already invested in European real estate and with Patron Capital including ***Arizona Public Safety Personnel Retirement Systems*** and others.

Patron Capital is a registered investment advisor with the SEC and is also registered with the FCA in the United Kingdom. Patron Capital was founded in 1999 by Mr. Keith Breslaur who is still with the firm. As of January 2016, the firm manages approximately €2.2 billion in assets and has 73 employees in five locations in Europe. The investment team consists of 41 investment professional and senior advisers who are highly skilled in their respective areas of

focus, averaging 18 years experience with the Patron senior partners averaging 23 years of experience.

### **Real Estate Opportunities in Europe**

#### ***What is European Real Estate?***

The institutional European real estate property types and investment categories are similar to those in the United States. The European managers categorize their properties into Core, Value-Added and Opportunistic investments using similar characteristics as shown below:

- Core – Stabilized, leased properties. Income producing with limited risk.
- Value-Added – Core property types with an identifiable deficiency that can be corrected and converted to core.
- Opportunistic – Similar to Value-Added investments but with greater risk characteristics such as distressed assets, ground up development and vacant land.

U.S. investors seeking to make international investments should also be concerned about systematic risk including political, economic and currency risk. Returns identified by the European managers potentially could be lower (or higher) due to currency fluctuations over the term of the investment. For example, a manager could report a double digit positive return in foreign currency but with the impact of the currency fluctuation, the return in U.S. dollars could be negative.

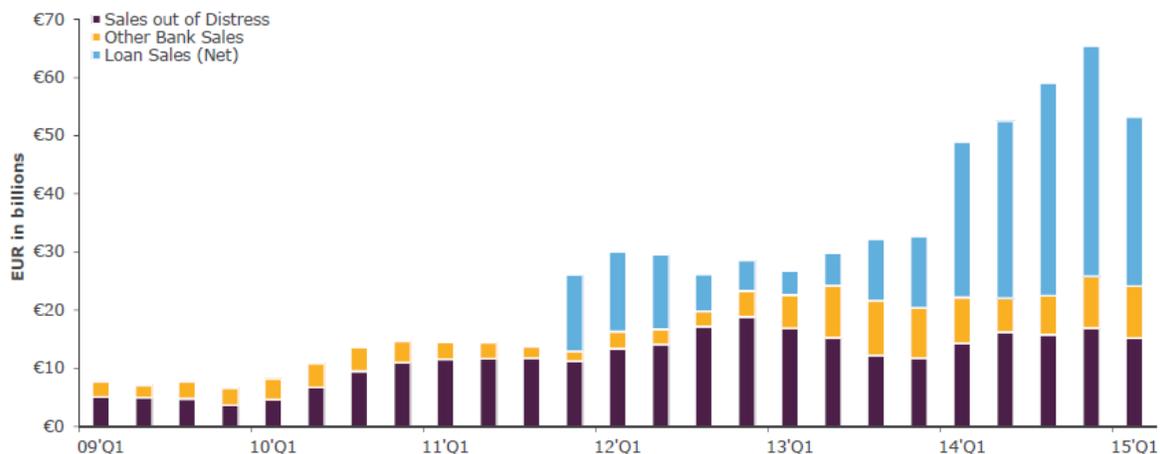
At the institutional level, many real estate managers tend to focus European countries with less economic and political risks. Europe (excluding London) has a much less transparent real estate market compared to the U.S. market. However, many of the U.K., France and Germany funds are very transparent, similar to the U.S. funds. Real estate managers have also begun looking at investments in Spain, Italy and the Nordic Countries as a means to diversify their portfolio outside of the mainstream countries.

Each country has its own unique investing environment so local presence and expertise is critical to the success of the fund.

#### ***Why Europe?***

Relative to the U.S., Europe has been much slower to recover coming out of the Global Financial Crisis in 2008. Capital values remain below previous peak as Europe is still earlier in the real estate cycle relative to the U.S. Over the next few years, it is expected that many large banks will seek to reduce the real estate holdings on their balance sheets, which should create additional opportunities for real estate transaction. The chart below highlights this point

## 12 Month Rolling Sales of Balance Sheet Assets in Europe



Source: Real Capital Analytics, July 2015

### **Conclusion**

Due to a historically wide spread between core and non-core assets, ORG feels that value creation provides a very attractive investment thesis and that Value-Added and Opportunistic strategies in the European market are favorable in today's economic environment. The recent strength of the dollar also creates a more attractive entry point to invest in European funds.

ORG cautiously recommend European real estate managers that are experienced in the marketplace and have teams with local knowledge involved in the investment selection and asset monitoring process. The KRS Investment Staff concurs with this investment and selection strategy.

## The Search Process

The search process began in early 2015. KRS Investment Staff and ORG Portfolio Management (“ORG”) discussed the European Real Estate opportunities. ORG evaluated the universe of European investment managers and funds included in ORG’s database, which totals over 600 managers that have provided ORG with complete data and over 2,000 investment funds. Of the total database, the European investments totaled 28 managers and 68 investment funds. Managers/funds were eliminated from consideration for a number of reasons, both qualitative and quantitative, reasons include, but were not limited to the following:

- Funds that did not have a team of professionals working together with sufficient track records of investment success through various investment cycles.
- Funds managed by firms with issues such as recent departures, organizational issues or pending sales of the firm.
- Firms that did not provide sufficient information to ORG to evaluate the opportunities.
- Funds/managers that were evaluated in the past three years that failed to sufficiently correct previous concerns.
- Managers who were not transparent and who were unwilling to provide detailed financial, quantitative and qualitative information about their investments, including cash flows, net returns, loan maturities and other pertinent information. ORG deems this information necessary to evaluate past performance and provide sufficient oversight of KRS’ investments.

Based partly on the above criteria, KRS Investment Staff and ORG agreed upon a list of potential candidates. The potential candidates included the following managers/funds:

- Patron Capital – Patron Capital V, L.P.
- Perella Weinberg - Perella Weinberg European Real Estate Fund III, L.P.
- BlackRock – BlackRock Europe Property Fund IV, L.P.
- Kohlberg Kravis Roberts &Co. – KKR Real Estate Partners Europe, L.P.
- Harbert Management Corp. – Harbert European Real Estate Fund IV, L.P.
- Benson Elliot Capital Management– Benson Elliot Real Estate Partners IV, L.P.
- Blackstone – Blackstone Real Estate Partners Europe V, L.P. \*

*\* Initial conversation occurred later in the process due to announcement of fund raising effort.*

Between March and July, KRS Investment Staff and ORG held numerous conference calls with these candidates along with a review of their Private Placement Memorandums (“PPM”), other marketing related materials and prior Detailed Due Diligence Questionnaires (“DDQ”) that had been obtained from several funds. Several firms also visited with the KRS Investment Staff in Frankfurt to review their fund opportunities.

### **Manager Evaluation Process - Selection of Semi-Finalists**

Following the conference calls and review of initial materials, KRS Investment Staff and ORG elected to not pursue the collection of additional information from the following funds, eliminating them from consideration:

- **Benson Elliot**
- **Harbert Management Corp**

ORG issued a DDQ to the following funds to obtain additional, in-depth information regarding their firm and the proposed operations and identifiable risks associated with the investment.

- Kohlberg Kravis Roberts & Co. – KKR Real Estate Partners Europe, L.P.
- Patron Capital – Patron Capital V, L.P. (ORG had a current DDQ on file.)

KRS Investment Staff and ORG independently reviewed responses to the DDQ and other additional documentation provided by the manager.

### **Finalist Presentations**

During November 2015, KRS Investment Staff and ORG held additional in-person interviews with representatives from Patron Capital, KKR and Perella at ORG's office in Cleveland, OH. Topics included discussion on the firm's investment philosophy and process, potential investment opportunity set in light of the firm's expertise in today's current market environment and portfolio construction. There was not an additional in-person interview of BlackRock other than meetings held with the KRS Investment Staff.

ORG had recently met with two of the four finalist candidates at their place of business. A comprehensive due diligence, including an operational review, was conducted at that time. In each instance ORG met with senior firm and investment professionals, research analysts, traders, operations and compliance personnel. (Note: If one of the firms that ORG had not recently visited had been selected, ORG would have performed an on-site visit with that manager prior to the recommendation being finalized.)

Another candidate was dropped for the following reason:

- **Perella Weinberg** - Perella Weinberg European Real Estate Fund III, L.P. – After initial review, KRS Investment Staff and ORG learned that the investment team spun off from Perella Weinberg to form PW Capital. PW Capital had a smaller staff and unproven track record. Also reliance on a single individual within the firm was a concern.

## **Finalist Selected**

KRS Investment Staff and ORG met in Cleveland in January 2016 to discuss the results of the DDQ along with recent firm/fund information. In an in-depth discussion format with KRS and multiple ORG staff each manager was reviewed along with their strengths and weaknesses.

The two managers/funds below were not selected for the following reasons:

- **BlackRock Europe Property Fund IV** – The prior European funds are not considered top-tier performers. The investment focus allows for all property types across all of Europe including Western, Eastern and Central Europe. ORG has observed that fund investments in Eastern and Central Europe generally have not had the same success as fund investments in more stabilized Western Europe.
- **KKR Real Estate Partners Europe IV** – The majority of the key professionals are located in the U.S. as opposed to being on the ground in the target geographies. All of the European professionals (except for one individual) have joined KKR since 2012. Although the team had considerable experience, they had not worked together for a long period. KKR also earns fees from several related party entities which could result in a conflict of interest and above market compensation for the Manager.

**At the conclusion of this due diligence, KRS Investment Staff and ORG agreed to recommend Patron Capital V, L.P. Below is a summary of the manager.**

### **About Patron Capital V, L.P.**

#### ***Firm History & Ownership***

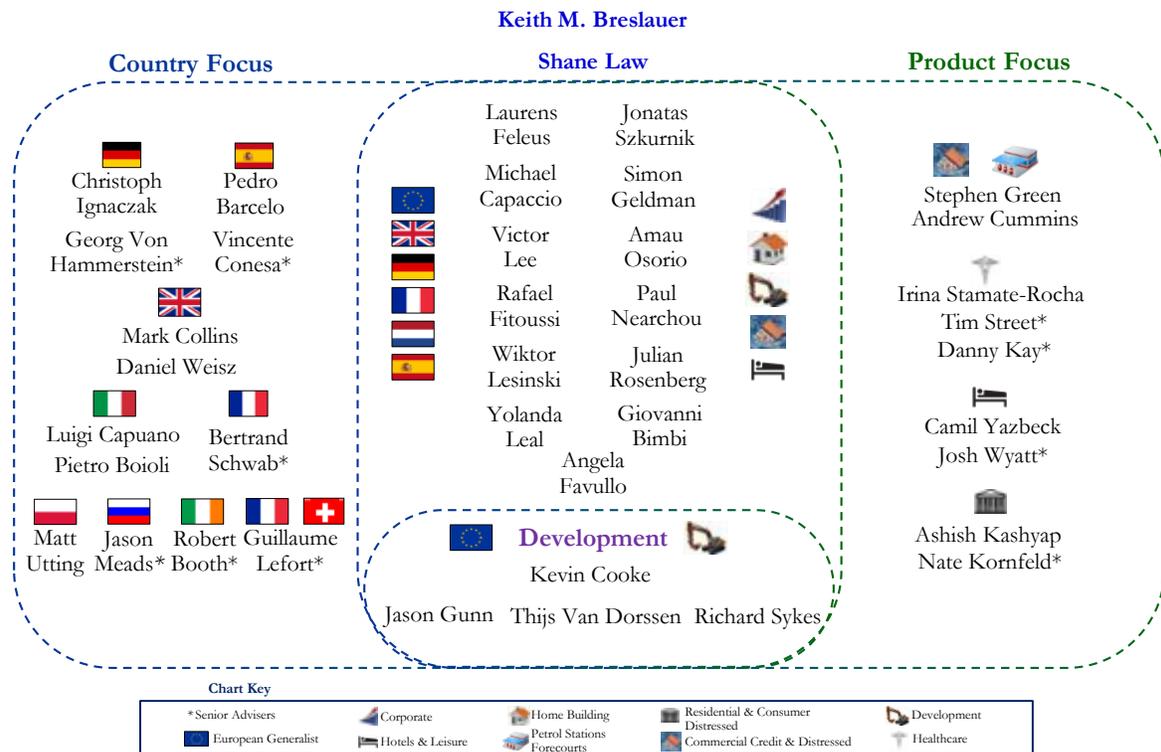
Patron was established in 1999 by Keith Breslauer to make value oriented and opportunistic real estate and real estate related investments primarily in Western Europe. Since its founding, Patron has raised over €2.5 billion of equity capital from over 100 primarily institutional investors including sovereign wealth funds, corporate pension plans and endowments across five funds and co-investment pools. As of January 2016, €2.2 billion of equity with over €9 billion of gross asset value has been invested predominately across Western Europe. Patron has operations across Europe with its main advisory offices in the United Kingdom and Luxembourg and additional offices in Germany, Spain and Italy.

Patron's team consists of a total of 73 dedicated professionals led by founder and Managing Director, Keith Breslauer. The team has expertise in acquisitions, asset management, development, finance and operations. Patron's in-house team is supplemented by its extensive network of long standing relationships with local participants, intermediaries, management teams and originators throughout Europe.

Patron's investment team consists of 41 investment professionals and senior advisers (the "Investment Team") who are highly skilled in their respective areas of focus, averaging 18 years

of experience, with the Patron senior partners averaging 23 years of experience. Working on a granular, product and country specific basis, the Investment Team operates effectively as an owner operator and is therefore well positioned to capitalize on investment opportunities that arise as markets throughout Western Europe move through their respective cycles. In addition to the experienced product and country specialists, the Investment Team includes a dedicated in-house development team (the “Development Team”) consisting of four professionals with significant property industry experience who contribute to the underwriting and ensure local partner performance for their respective investments. Patron’s Investment Team has been highly cohesive as a result of low turnover and because many members of the team spent a significant portion of their careers working together either at Patron or with Patron personnel in their previous roles.

Patron’s Investment Team:



The Investment Team works closely with a 31 person support team (the “Support Team”), which includes key legal, finance and tax, structuring and compliance professionals whose work is instrumental at both the origination stage and during the implementation of business plans. The Support Team also includes a fully staffed Luxembourg organization, which offers a valuable structuring advantage for many of Patron’s investments.

### **Investment Strategy**

The Fund will continue the successful strategy of its predecessor (Fund IV), focusing predominantly on Western Europe, as Patron believes this region remains an attractive investment environment in the near term, which will extend Patron's proven historic performance in the region. The Fund will focus on opportunistic and value oriented investments, primarily targeting distressed and/or undervalued property and property related assets, loans and corporate entities. Specifically, it will target middle market transactions that typically require initial equity commitments in the range of €30 million to €90 million, and in certain cases, will expand to larger commitments based on the respective investment plans. The Fund may also opportunistically invest in attractive larger scale transactions that are consistent with this strategy and meet its risk adjusted return objectives. In these circumstances, the Fund may use co-investment capital from the Fund's investors, in priority, as utilized for relevant investments in prior funds. The Fund will aim to invest in non-competitive situations, originated through Patron's extensive network of long standing relationships with local participants, financial institutions, investment banks, private equity partners, local advisers and agents.

Patron's investments largely fall into four primary strategic themes: distressed, undervalued, non-core and complex, in all cases targeting opportunities with assets that are below fundamental intrinsic value:

### ***Fund Strategic Overview***

<b>Distressed</b> <ul style="list-style-type: none"><li>• Bank driven sales/liquidations</li><li>• Liquidity constrained operators/borrowers/developers</li></ul>	<b>60-70%</b>
<b>Businesses with underlying property below intrinsic asset value</b> <ul style="list-style-type: none"><li>• Asset based expansion with complete entity exit</li><li>• Companies with strong cash flow supported by underlying real estate assets</li><li>• Appropriate asset break up and sale with subsequent entity exit or shut down</li></ul>	<b>30-40%</b>
<b>Institutional Non-Core (ex-distressed)</b> <ul style="list-style-type: none"><li>• Property assets below intrinsic value deemed non-core by parent/owner</li></ul>	<b>0-10%</b>
<b>Complex Situations</b> <ul style="list-style-type: none"><li>• Attractive property fundamentals encumbered by complex situations</li></ul>	<b>0-5%</b>

Within the four primary themes, Patron identifies granular micro themes, including specific asset subcategories and geographic markets, in which these features and other attractive market dynamics are most prevalent and where the benefit of Patron's depth and breadth of experience can be brought to bear most effectively. Given the dislocated economic and market environment, Patron expects to capitalize on such pockets of opportunity across Western Europe over the near term. Examples of primary micro themes for focus are:

### ***Primary Micro Themes***

- **Commercial Bank and Financial Institution Inventories:** European financial institutions have large portfolios of distressed commercial real estate loans and foreclosed real estate assets on their balance sheets that are considered non-core and have prioritized the need to liquidate the positions with increased urgency.
- **Liquidity Constrained Opportunistic Partners:** Opportunistic local partners that have identified opportunities but lack the necessary capital, given reduced local leverage.
- **Distressed and Overleveraged Developer/Investors:** Developers and investors that have come under pressure to liquidate assets due to overleveraging.
- **Public and Private Asset Rich Corporates with Liquidity Problems:** Such companies are typically capital constrained either due to lack of financing available in the debt markets or the limited capital of their founding sponsors.
- **Dislocated Mortgage Markets (residential and commercial) and Defaulted Securitized Assets:** Acquisition of portfolios, performing and non-performing as well as participating in certain mortgage backed loans and related opportunities.

Patron believes that its established platform as a pan-European opportunistic real estate investor, with experience and expertise in analyzing and underwriting diverse real estate assets in multiple geographies, its granular asset focus, local asset management capabilities and its ability to address complex corporate related issues, makes Patron ideally positioned to properly underwrite and capitalize on the current and anticipated deal flow.

### **Market Conditions and Risk Management**

*(Following are comments from Patron's DDQ responses.)*

Patron believes the current market conditions create an attractive investment environment for the Fund's strategy.

The Fund will primarily target investments in Western Europe, with a focus on the UK, Germany, Spain, Ireland, the Netherlands, France and Italy. The overall economy in Europe is beginning to stabilize, supported by increased liquidity, reduced unemployment and improvements in manufacturing and GDP, with growth in the EU estimated at 1.3% for 2014 and 1.5% forecast for 2015, up from zero growth in 2013. The European Central Bank is now firmly behind driving the recovery with the recent announcement of an approximate €1.1 trillion of support. Patron believes the key opportunities are driven by deleveraging in European banks, related direct and indirect asset sales and reduced lending by traditional financial institutions to local market participants in reaction to changes in the regulatory environment. These significant shifts within the financial institutions, combined with limited

new supply in key European markets due to a general lack of new construction have, in Patron's view, created attractive potential upside for property assets. Further, the increasing hunt for yield by both domestic and international investors has driven strong demand for institutional-quality assets. Patron sees a compelling opportunity in this environment to acquire and improve difficult and challenged assets and exit into what Patron expects to be an increasingly stable and liquid market. In summary:

- (a) Macroeconomic Environment: Europe's macro market is slowly stabilizing and improving as a result of low rates, falling commodity prices and improving liquidity;
- (b) Property Trends: Key European cities have experienced minimal development over the last seven years, which Patron believes has created attractive upside for existing property assets; and
- (c) Deleveraging Opportunity: Continued deleveraging by banks, maturing debt and an increasingly restrictive regulatory environment within the next few years will continue to drive non-core asset sales

Patron believes these trends create attractive conditions to source and execute investments with strong absolute and risk-adjusted return potential over the Fund's investment period. There is a significant opportunity in Western Europe's fragmented and supply-constrained markets for Patron, as an owner-operator with regional and cross-sector expertise, to acquire assets and companies below intrinsic value and execute value-add business plans with relatively shorter investment duration. These opportunities for a group like Patron are largely driven by a lack of transparency within the financial institution sector and Patron's granular knowledge built up over 20+ years by the key principals.

Over the past four years, Patron has seen an increasing number of opportunities driven by the continued deleveraging of the banking sector, an improved interest rate environment and a slow return to economic growth across most European markets. In the past two years, and as expected over the next two to four years, the majority of the opportunities have a large component of cash flow and a generally shorter duration with respect to their investment horizon. This is a significant improvement in the investment environment relative to the 2005 to 2007 period which impacted Fund II and Fund III. Specifically over the last 12 months Patron has evaluated and spent significant time on over 300+ opportunities representing over \$16.5 billion of capital.

The market conditions that would be the most challenging for Patron V would be a significant increase in interest rates without a corresponding rise in economic activity. The effect of this increased rate environment would put severe pressure on consumers across Europe, given the generally high levels of leverage that still exist and thereby impact consumer spending. This would in turn provide a significant headwind to the current recovery in key European countries and may lead to a recessionary environment. However, Patron would anticipate that any rise in rates would be alongside an increase in economic activity.

Another concern would be some event that would impact liquidity to the European

environment. Patron considers this to be quite a crucial issue, as liquidity has returned to the system and although it is still in its nascence it has momentum. It is generally believed that the lack of liquidity and leverage by the banks was one of the primary causes for the continued weakness of the European economy.

Various further key risks, should they occur, may negatively impact the European recovery and the perceived positive tailwind, and in turn the investment strategy. These include:

- Change in political power across key economic participants (i.e. Greece change of government, UK's May election). The recent referendum for Scottish devolution may further inspire other independent movements (i.e. Catalan) happening across Europe
- Central banks / governments make a policy mistake with monetary policy (rates) and/or fiscal policy (taxes) as economies improve
- China credit implodes and severely impacts global GDP and liquidity
- War – Russia to W. Ukraine / Poland – Boycott of imports and impact on European economy.

Patron has always practiced a cautious position with respect to leverage. Specifically, if Patron could not have confidence that they are receiving the right provisions, they would not borrow the money. This way Patron always maintains control of the financing and therefore effectively use leverage as a form of tail risk protection. The targeted leverage is approximately 55%-60% but historically on average has been as low as 33% when Patron became concerned with the market conditions.

Additionally, Patron believes its current geographic focus on Western Europe markets is important in mitigating the potential impact of sub-optimal economic conditions. This is supported by the current Fund IV focus and the lessons learned from both Fund II and III where portfolio performance was impacted by poorer performing investments in Central and Eastern Europe (see below table). Fund V will continue the successful strategy of Fund IV, focusing predominantly on Western Europe given the compelling opportunities and Patron's proven investment performance in the region.

Overall, Patron's Western European performance has surpassed expectations throughout overall market cycle via a mix of property backed investments with operational elements and direct property investments combined with downside protection using lower leverage.

#### Patron Overall Performance as of September 30, 2015 (€ in millions)

	<i>Number of Investments</i>	<i>Invested &amp; Identified Equity <sup>(iii)</sup></i>	<i>Realised Proceeds <sup>(iii)</sup></i>	<i>Unrealised Proceeds <sup>(iv)</sup></i>	<i>Realised &amp; Unrealised Proceeds <sup>(v)</sup></i>	<i>LTV <sup>(vi)</sup></i>	<i>Gross IRR <sup>(vii)</sup></i>	<i>Gross Equity Multiple <sup>(viii)</sup></i>
<b>Overall Patron Performance</b>	61	€2,195m	€1,264m	€2,250m	€3,514m	40.7%	16%	1.60x
<b>Western Europe</b>	53	€1,876m	€1,230m	€2,054m	€3,284m	38.3%	21%	1.75x

In addition, Patron views portfolio management as a dynamic process, as each new investment will change the Fund's portfolio characteristics and must be evaluated within this context and not only as a stand-alone investment. Therefore Patron reviews each investment in the context of the entire portfolio, evaluating its contribution to the Fund's diversification, risk profile, currency exposure, leverage dynamics and return objective.

### **Accounting, Compliance and Legal**

Patron stated it has a detailed monitoring program. The General Counsel, as Compliance Officer and MLRO (Money Laundering Reporting Officer) ensures monitoring program is followed and MLRO policy is complied with. The Monitoring Program is managed by the Compliance Officer and reviewed on an annual basis by external advisors.

In addition, quarterly, half yearly and annual reports to the board of Patron are produced in relation to many aspects of compliance which also includes training programs. Considerable time has been spent on this structure with legal advisers, King & Wood Mallesons LLP (previously SJ Berwin LLP).

In addition, the Fund's Jersey Administrator will be responsible for ensuring that all prospective investors in the Fund satisfy the applicable money laundering requirements and the Fund's investment activities are in accordance with Jersey regulatory requirements.

### **Performance**

The overall performance of the prior Patron funds is shown in the table above. Fund V is targeting a 17-22% gross IRR with a 1.7x gross equity multiple.

### **Management Fees**

The management fee for this investment fund will be a 1.75% fee per annum on commitment capital during the investment period (4 years) and 1.5% fee on the aggregated acquisition cost of any unrealized investments after the investment period with a 20% performance fee over a 9% preferred return with a catch-up provision. The fund will employ leverage with a loan-to-value limit of 65% for the total fund with a limit of 75% on any one investment.

### **Summary**

KRS staff is recommending an investment in Patron Capital V, L.P. for both the pension and insurance funds. The recommended investment of €50 million will be split to the pension fund and to the insurance fund. Staff expects this investment to earn between 17% and 22% gross of all fees, with minimal leverage for the strategy and offer excellent diversification benefits to the overall portfolio.

**Biographies of Key Patron Professionals, Investment Team and Senior Advisers**

**Keith M. Breslauer – Managing Director & Senior Partner:** Mr. Breslauer founded Patron Capital in 1999 and is the Managing Director of Patron Capital Advisers LLP (and held a similar position in its predecessor vehicles), the investment adviser to the Patron Capital Funds (including Patron Capital Captive Fund, Funds I - IV). In addition to his overall leadership responsibility, Mr. Breslauer is primarily responsible for leading the origination efforts of all Patron funds.

Mr. Breslauer began his career in 1988 at Lehman Brothers, where he worked originally in the Financial Institutions Group in partnership with the Mortgage Trading Group. In addition to various responsibilities related to corporate finance and capital markets, he was involved in and led many transactions in the United States distressed markets of the 1980s and 1990s. In 1993, while with Lehman Brothers, Mr. Breslauer moved to London to target distressed assets in Europe and to assist in the creation and leadership of the Principal Finance Group, established to invest Lehman Brothers' capital in financial institutions and property assets and companies. He also served as the co-head of the International Mortgage and Real Estate Department until 1997. In 1997, Mr. Breslauer left Lehman Brothers to create and manage an investment fund focusing on smaller European property opportunities. As a bridge to the ultimate formation of Patron, he established and managed Capstar Holdings Limited, a company organized in London to originate investments on an exclusive basis for the Lone Star Opportunity Fund (I), a primarily United States based real estate fund.

Mr. Breslauer's background includes numerous investments in both property and mortgage assets and operation businesses (including hotels, servicing businesses and mortgage institutions), on a pan-European basis. He has led or assisted in the acquisition of over \$20 billion in assets in several European countries and in the United States. Additionally, he has broad experience in corporate transactions ranging from mergers and acquisitions to equity and debt capital raising and structured finance.

He holds a Master of Business Administration (MBA) degree from the University of Chicago and a Bachelor of Science (BSc) degree from the New York University School of Business. Mr. Breslauer has resided in London for the past twenty-one years with his wife and four children and is a citizen of the United States.

**Shane Law – Chief Operating Officer & Senior Partner:** Mr. Law formally joined Patron in 2003, after working closely with Patron since 2000 on the Fund I, Simon Storage investment in his role as investment banker at Commerzbank Securities, Patron's adviser on that transaction. Mr. Law's COO responsibilities primarily include managing the day-to-day operations of Patron, oversight and support to the Patron team across all investments and processes, investor related matters and recruitment and overall support to the Investment Team. In addition to his COO role, Mr. Law focuses on Patron's corporate investments and related responsibilities. Prior to joining Patron, he spent six years in investment banking focusing on European mergers and

acquisitions, initially at Svenska Handelsbanken and subsequently at Commerzbank Securities. He began his professional career at Ernst & Young (London), where he spent three years as a chartered accountant. Mr. Law holds a Bachelor of Science (BSc) degree in Mathematics from the University of Durham and he is a qualified Chartered Accountant (ACA). Mr. Law resides in England and is a citizen of the United Kingdom.

### **Investment Team**

**Mark Collins – Chairman of UK Investments & Senior Partner:** Mr. Collins joined Patron in 2012 with a focus on the UK real estate market. Mr. Collins has extensive experience in the property industry, including several main Board roles and most recently as Managing Director of Lloyds Bank Corporate Real Estate Business Support Unit. Prior to this, he was COO at the UK's largest property company, Land Securities Group PLC, Managing Director for UK and Europe at GE Capital Real Estate and Assistant General Manager of Property Advisory at Sumitomo Bank. Mr. Collins knowledge of the UK's property industry, high profile firms and their CEO's has been extremely beneficial for Patron in establishing new relationships and investment opportunities. In addition given his extensive experience across various company boards and corporate governance related matters, Mr. Collins currently acts in a personal capacity as Chairman on both the Generator and CALA homes Investments within Fund III and Fund IV respectively. Mr. Collins also has extensive experience at the operational and transactional levels. He was responsible for managing major change initiatives at Land Securities and on the transactional side, he was instrumental in putting together a number a number of significant property deals, including leading the first ever corporate acquisition for Land Securities of TOPS Estates PLC and creating a £540m Joint Venture with British Land. He also originated the largest ever real estate take private deal in Europe with MEPC in 2000. Mr. Collins is a chartered surveyor by training and holds a Bachelor of Science (BSc) degree in valuation and real estate management from University of West England. Mr. Collins resides in England and is a citizen of the United Kingdom.

**Stephen Green – Senior Partner, Special Situations:** Mr. Green joined Patron in 2009 as a Senior Partner responsible for special situations, including the origination and underwriting of real estate debt related investments, restructurings, and complex corporate opportunities. Prior to joining Patron, Mr. Green worked at Merrill Lynch for 12 years, for much of this time as Managing Director and from 2000 as Head of the Merrill Lynch European Commercial Real Estate Finance business, which covered investment property and operating real estate loan origination, underwriting, syndication and securitization. In addition to personally leading many of that group's larger transactions, Mr. Green was responsible for the overall activities of a team of 55 professionals in London, Frankfurt and Milan. Prior to joining Merrill Lynch in 1997, Mr. Green worked for 4 years with Mr. Breslauer in the real estate team at Lehman Brothers. Mr. Green holds a Bachelor of Arts ("BA") (Hons) in Physics from Oxford University and qualified as a Chartered Accountant with Ernst & Young before joining Lehman Brothers. Mr. Green lives in London and is a citizen of the United Kingdom.

**Pedro Barcelo – Managing Director & Senior Partner, Spain:** Mr. Barcelo is responsible for

the management of Patron's office in Barcelona and has responsibility for the origination, due diligence, execution, structuring, financing and asset management of investments in Spain. Mr. Barcelo formally joined Patron in 2004, after working with Patron during that year on the refinancing of the Hotel Arts in his role as loan originator at Hypo Real Estate Bank International. Mr. Barcelo spent three years at Hypo Real Estate Bank International focusing on project & corporate loan origination, initially in London and subsequently in Madrid. Previously, Mr. Barcelo worked for one year at Enron in the underwriting department in London and also worked for two years at Hines in the development of the Diagonal Mar mixed use project in Barcelona. Mr. Barcelo holds a degree in Civil Engineering from the Polytechnic University of Catalonia and a MBA degree from IESE (Barcelona). He speaks Spanish, Catalan and English, resides in Barcelona and is a citizen of Spain.

**Luigi Capuano – Managing Director & Chairman, Italy:** Mr. Capuano formally became an advisor to Patron in June 2006, with an initial focus on institutional banking relationships. In 2010, he assumed day-to-day management of the Patron Italy team, with responsibility for new business and the management of existing investments. Prior to joining Patron, Mr. Capuano spent most of his professional career in the Italian banking system where, from 1990, he held senior management positions including General Director of San Paolo di Torino, Chief Executive of Banca Popolare di Novara, Chief Executive of Italfondinario, and Group Head of the Italian Bank Division of Bank Group Banca Intesa. Mr. Capuano holds a Degree in Jurisprudence from the University of Turin. He is the President of the National Tax Collectors Syndicate and of SITEBA (Bank Technology Systems). He is also a member of the Management Board of various commercial and service companies and is a member of the National Auditors Register. Mr. Capuano is a citizen of Italy and speaks Italian and English.

**Laurens Feleus – Investment Director & Senior Partner:** Mr. Feleus joined Patron in January 2005 and focuses on investments in the Benelux and Nordic countries. He also focuses on Patron's activities in residential real estate and financial institutions and is responsible for Patron's activities on behalf of certain investors in India. Mr. Feleus started his career in investment banking at Salomon Smith Barney (now Citigroup Investment Bank) in London in 2000. Before joining Patron, he also worked for a privately owned United Kingdom/Swiss based investment banking boutique specializing on medium sized private equity deals. He holds a Master of Arts in Financial Economics from the University of Amsterdam. He is fluent in English, German, Dutch (Flemish) and French. Mr. Feleus resides in England and is a citizen of The Netherlands.

**Christoph Ignaczak – Investment Director & Senior Partner, Germany:** Mr. Ignaczak joined Patron in 2012 and focuses on German investments, with responsibilities including origination, due diligence, execution, asset management and business plan implementation. Prior to joining Patron, Mr. Ignaczak worked at Acrest Property Group, a real estate development and asset management company based in Berlin, Germany, as Director where he was primarily in charge of financing and investment analysis. Previously, Mr. Ignaczak worked for more than 4 years in the real estate finance team at Merrill Lynch and started his career at Eurohypo. Mr. Ignaczak graduated from the University of Cologne with a Business Administration Degree and is CFA

charterholder. Mr. Ignaczak is fluent in English and German. Mr. Ignaczak resides in England and is a citizen of Germany.

**Jonatas Szkurnik – Investment Director & Senior Partner:** Mr. Szkurnik joined Patron in August 2007. Mr. Szkurnik focuses on Patron's direct investments in real estate, asset backed operating companies and corporate investments, with responsibilities including deal sourcing, execution, structuring, financing, due diligence and asset management. To date, Mr. Szkurnik has been involved in investments in residential, commercial and healthcare sectors, amongst others. Mr. Szkurnik started his career in Brazil in investment banking and holds a BSc in Civil and Industrial Engineering from Pontificia Universidade Catolica (PUC-Rio) and a MBA from London Business School. He is fluent in English, Spanish and Portuguese. Mr. Szkurnik is a citizen of Brazil.

**Daniel Weisz – Investment Director & Senior Partner:** Mr. Weisz joined Patron in August 2006 and focuses on Patron's principally commercial real estate investments in the UK and France, including direct real estate and asset backed operating companies, with responsibilities including origination, execution and asset management. Prior to joining Patron, Mr. Weisz's career included investment banking focused on Alternative assets investment advisory at JP Morgan, alternate assets fund and equity placement, and direct European real estate and real estate related investment. He holds a BSc in Accounting and Finance from the London School of Economics. Mr. Weisz is fluent in French and Hebrew and resides in England.

**Michael Capaccio – Investment Director & Senior Partner:** Mr. Capaccio joined Patron in 2004 in the role of senior originator and asset manager for new investments in Romania and Italy. Mr. Capaccio was previously with Lehman Brothers in the United Kingdom and Italy, where he was co-head of the Italian real estate principal business. During his five year tenure with Lehman Brothers, Mr. Capaccio originated or was involved as a senior manager in more than €3 billion of equity, mezzanine and senior debt investments in Italy, France and Central Europe. He began his professional career at Bankers Trust Company in New York and Chicago and has over 30 years of experience in property investment, finance and development in the US and Europe. Mr. Capaccio holds a BA degree cum laude in Economics and Political Science from Rutgers University. Mr. Capaccio resides in Italy. He speaks English, Italian and French and is a United States citizen.

**Ashish Kashyap – Investment Director:** Mr. Kashyap joined Patron in March 2009 and focuses on Patron's investments in residential real estate debt, consumer debt and financial institutions. Prior to joining Patron, he spent two years at Merrill Lynch's structured finance group in London, where he was responsible for analytics for the group's residential real estate investments. He also has five years' experience through various operational roles at Capital One in the United States. Mr. Kashyap holds a Bachelor of Technology (B Tech) degree in Computer Science and Engineering from the Indian Institute of Technology (India) and a Masters of Business Administration (MBA) degree from Insead (France and Singapore). Mr. Kashyap resides in England and is a citizen of the United Kingdom.

**Matthew Utting – Investment Director:** Mr. Utting joined Patron in 2000 and has primary

responsibility for all investments in Poland. He worked previously in various analytical positions for Bank of Nova Scotia, Citibank and Bank of Montreal. Mr. Utting holds a Master of Arts degree (“MA”) in Economics and a BA with honours in Economics (Applied Studies) from the University of Waterloo. Mr. Utting resides in England, is fluent in French and conversationally proficient in Spanish, Italian and German and is a citizen of the United Kingdom and Canada.

**Camil Yazbeck – Investment Director, Hospitality:** Mr. Yazbeck leads all aspects of origination, acquisition, underwriting, execution and asset management of new investment opportunities as well as the strategic and operational management of assets in Patron's hospitality sector investments. Prior to joining Patron, he spent over 20 years in the hospitality industry, focusing on all aspects of hotel operations in a variety of roles throughout the world. He held several senior positions with international hotel companies, including Operations Director, Group and Area General Manager. He acquired extensive experience moving up the ranks in hotel operations, in hotel pre-openings as well as the extended stay hotel market, within independent and branded hotels including Le Meridien, Crowne Plaza, Holiday Inn, Mercure, Best Western, The Ascott Group, Citadines and Staybridge Suites. Mr. Yazbeck holds a Master of Business Administration (MBA) specialized in Hospitality Management from IMHI: Institut de Management Hôtelier International (A joint program of Cornell University (USA) and ESSEC Graduate School of Management, Paris, France), and a French BTS (Bachelor equivalent) in Hotel and Restaurant Management from the Lycée Hôtelier Château Bellerive (Grenoble Academy, Vienne, France). Mr. Yazbeck resides in England and is a citizen of France.

**Andrew Cummins – Vice President, Special Situations:** Mr. Cummins joined Patron's Investment Team in 2011 and focusses on investment across Europe, particularly the UK and Nordic Countries. Mr. Cummins is responsible for deal sourcing, execution, structuring, financing, due diligence, asset management and business plan implementation, with an emphasis on special situations, including real estate debt related investments, restructurings, and complex corporate opportunities. Prior to joining the Investment Team, Mr. Cummins trained as a Barrister, during which time he worked part-time in Patron's in-house legal department. Mr. Cummins was educated at the University of Edinburgh (Master of Arts (Honours), majoring in Politics and Economics; Master of Science in European and International Relations), City University (Graduate Diploma in Law) and the Inns of Court School of Law (Bar Vocational Course, Postgraduate Diploma in Professional Legal Skills). Mr. Cummins resides in England, is proficient in Swedish and is a citizen of the United Kingdom.

**Simon Geldmann – Vice President:** Mr. Geldmann joined Patron in 2007 working part-time during his university studies and joined full-time after graduating in 2010. Mr. Geldmann focuses on Patron's German activities with responsibilities including origination, execution, structuring, financing, due diligence and asset management. To date, Mr. Geldmann has been involved in investments across most asset classes in Germany as well as in the healthcare sector in the UK. Prior to joining Patron Mr. Geldmann worked as an intern in the shipping and property industries in China and Germany. Mr. Geldmann holds a Bachelor of Arts degree with honours in Business Management from the University of Westminster. He is fluent in English and German. Mr. Geldmann resides in England and is a German citizen.

**Victor Lee – Vice President:** Mr. Lee joined Patron in August 2008 and focuses primarily on UK investments with responsibilities including origination, due diligence, execution, structuring, financing and asset management. Prior to joining Patron, Mr. Lee attained a Bachelor of Arts degree with honours in History from Oxford Brookes University. Mr. Lee resides in England. He is proficient in French and is a citizen of the United Kingdom and the United States.

**Irina Stamate-Rocha – Vice President:** Ms. Stamate-Rocha joined Patron in 2011, with responsibilities in deal sourcing, execution, structuring, financing, due diligence and asset management of healthcare related investment opportunities. Prior to joining Patron, Ms. Irina Stamate-Rocha worked in investment banking at Rothschild, Macquarie Capital Advisers and Fortis Bank (Brussels). Her experience includes the origination and execution of transactions for private equity and infrastructure funds. Ms. Stamate-Rocha holds a Masters in Finance degree from Vlerick Leuven Gent Management School and she obtained a Bachelor in Economics from the Academy of Economics, Bucharest. Ms. Stamate-Rocha resides in England and is a citizen of Romania.

### **Senior Advisers**

Senior advisers are senior expert independent individuals who provide services to and/or invest directly into the portfolio companies and are remunerated directly by portfolio companies or the Partnership.

**Robert Booth – Senior Adviser:** Mr. Booth has worked with Patron since 2007 when he began working on a joint venture with Patron through Capital Park in Warsaw. Since early 2008 Mr. Booth's primary responsibilities have been the origination and management of investments for Patron in Ireland, with a focus on distressed assets and businesses and utilizing his substantial relationships within the banking sector. Prior to working with Patron, from 2001 to 2007 Mr. Booth worked in the data centre industry where he was founder and CEO of Global Voice Networks, working in conjunction with Hewlett Packard Corporation to market data centre and outsourcing services to corporate tenants such as Google, Amazon, Microsoft, Bank of Ireland and Hutchison Whampoa. Prior to 2001, Mr. Booth established Trinity Group Limited, one of Ireland's largest computer resellers. The company, which had 45 staff and revenues of £25 million (Irish pounds), sold products on behalf of HP, Compaq, Sun, Oracle and Microsoft. He was also involved in the establishment of Trinity Commerce, an e-commerce development company which was primarily sold to Eircom. Mr Booth holds a Bachelor of Commerce Degree from University College Dublin. Mr Booth resides in Dublin and is a citizen of Ireland.

**Daniel Cohn – Senior Adviser (Legal):** Mr. Cohn is a corporate finance lawyer with over 15 years of experience and has worked with Patron for the last 9 years. Mr. Cohn has led large scale corporate and real estate transactions and managed teams of lawyers and other professionals in all major European jurisdictions. His range of experience includes real estate, private equity, banking and finance, M&A, MBOs & LBOs, public markets, public-to-private and joint venture transactions in multiple industry sectors across Europe. Prior to working with

Patron, Mr Cohn was a senior lawyer with Berwin Leighton Paisner where he had been focusing on large scale corporate property and principal finance transactions for major United Kingdom banks and private equity funds. Mr. Cohn holds an MA in Political Science and European Law from Johann Wolfgang Goethe University, Frankfurt. He studied law in Manchester. Mr. Cohn speaks Hebrew and German fluently, resides in England and is a citizen of Germany.

**Daniel Kay – Senior Adviser:** Mr. Kay has worked closely with Patron since 2008. His primary responsibilities include originating and managing investments for Patron in the real estate backed European Healthcare sector, and with Mr. Street and Patron co-founded Gracewell Healthcare in 2010. Mr Kay spent the early part of his career at Citicorp Investment Bank, later moving to HSBC working within its property finance division. In 1997 he joined Lend Lease Corporation as a Principal within its Private Equity division making real estate related investments including healthcare related joint ventures. He subsequently joined Trizec Hahn Europe, and then established a joint venture with Safeland plc, to develop a self-storage business in Italy. In 2003, through DKS Trading Limited, Mr. Kay identified and was responsible for the acquisition of Ten Harley Street Limited, a business providing flexible accommodation and services to medical practitioners through a freehold building in London’s Harley Street. In 2007, in partnership with management, Mr. Kay negotiated, structured and closed the MBO of Medical Direct Group plc, one of the United Kingdom’s leading providers of medical services to the United Kingdom life insurance sector, bringing in Investec Bank as a lead investor in the MBO. The business was sold to Capita plc in 2012. Mr. Kay remains a non-executive director of DKS Trading. He has BSc from the London School of Economics and resides in England and is a citizen of the United Kingdom.

**Nathan (“Nate”) Kornfeld – Senior Adviser:** In the last eight years, Mr. Kornfeld has taken on a more active role within Patron, advising the firm’s activities in residential mortgage backed investments, including the UK Residential Distressed Program. Mr. Kornfeld was President of GMAC Institutional Advisors, a \$14 billion investment management company specializing in commercial real estate at GMAC Commercial Mortgage (now Capmark) until 2005. He previously spent two years at GMAC-RFC, where he established the GMAC Venture Capital Fund to invest in residential mortgage technology companies. Mr. Kornfeld had previously founded the Phoenix Finance Group, a specialty finance company that acquired and collected delinquent credit card debt and was subsequently sold to GMAC in 1998. Between 1987 and 1996, Mr. Kornfeld worked as a managing director at Lehman Brothers, where his responsibilities included mortgage trading management, fixed income risk management and asset backed lending and worked closely with Mr. Breslauer on several closed and pursued investments. Prior to this, he worked at Salomon Brothers in the research department, and later at the mortgage trading desk. Mr. Kornfeld is a citizen of the United States, a personal friend of Mr. Breslauer and has worked with him for over 25 years.

**Jason Meads – Senior Adviser:** Mr. Meads has worked closely with Patron since the firm’s inception and for the last three years has worked as a part time adviser directly on the asset management of the BV Retail investment (Russia). Mr. Meads was previously a shareholder in a property company in Moscow, Russia, providing development, letting, investment and

management services for a number of projects, including the Usadba centre office development (65,000m<sup>2</sup>) and the Novinsky Bulvar office and retail development (73,000m<sup>2</sup>). Prior to Stolny Grad, Mr. Meads worked in the U.K. as a portfolio manager for Rugby Estates for three years. He has a Bachelor of Science degree (BSc) in Real Estate Finance from the City University (London). Mr. Meads resides in Jersey. Given his significant experience within the property industry, his direct experience with Patron and his Jersey residence, Mr. Meads will also act as a board member of the General Partner. He is fluent in Russian, German and French and is a citizen of the United Kingdom.

**Farhod Moghadam – Senior Adviser (Legal):** Mr. Moghadam is a corporate lawyer with over 13 years of legal experience and has worked with Patron for the last 3 years. He has advised a wide variety of public and private enterprises with operations in Europe, the Middle East, Africa, Southeast Asia and North America. His experience has included private equity, joint ventures, M&A, banking and finance and capital markets transactions with an industry sector focus on real estate, hospitality, healthcare, oil & gas and renewable energy. Previously Mr. Moghadam was a senior lawyer at Lawrence Graham where he had spent 8 years in their Corporate Group. Mr. Moghadam holds an honours degree in Law from the University of London (Queen Mary College) and spent a year studying French law at the University of Paris (Panthéon-Assas). Mr. Moghadam speaks Farsi and French to a high level and basic German. He resides in England and is a citizen of the United Kingdom.

**Bertrand Schwab – Senior Adviser:** Mr. Schwab has worked closely with Patron since the firm's inception and with Mr. Breslauer for the past eighteen years. His primary role includes originating and managing investments for Patron in France. In particular, he led the acquisition of Malakoff, Vectrane and the Hotel Arts, Barcelona. Previously, Mr. Schwab managed a holding company owned by Deutsche Bank, GE Real Estate and JER, which comprised a large French publicly listed company (Bail Investissement) with approximately €2 billion of logistic, retail and office buildings located primarily in France and an asset management company with 150 employees. Before that, Mr. Schwab was Managing Director and Partner of the Deutsche Bank Real Estate Private Equity group. In that position, he led numerous transactions valued at over €4 billion, including the acquisition and management of Filo SA, a publicly listed Spanish shopping centre company, the acquisition of the ISM group and the acquisition of real estate asset portfolios in Italy, Spain, and Portugal. Between 1995 and 1997, he was largely responsible for the development of the real estate franchise of Bankers Trust in France, where he helped develop the distressed loan and asset sale business, leading transactions including the sale of assets for Barclays Bank (where he met Mr. Breslauer and Ms. Langford), UAP, GAN, Credisuez and CDR. Mr. Schwab also advised CDR in the sale of Renta Inmobiliaria, a Spanish property company, the financing of Credit Bail portfolio, and the merger between two large French utility companies: Suez and Lyonnaise des Eaux. Prior to that, he worked at Paribas Capital Markets in London and Tokyo, trading interest rate and currency derivatives. Mr. Schwab is a former board member of Vectrane, Bail Investissement, Selectibanque, Selectibail and Filo – listed companies in France and Spain. He is a graduate of Hautes Etudes Commerciales (HEC), (France), where he majored in Finance. Mr. Schwab resides in England. He is a French citizen and is fluent in French, English and Spanish.

**Tim Street – Senior Adviser:** Mr. Street has worked closely with Patron since early 2010. His primary responsibilities include originating and managing investments in the real estate backed European Healthcare sector, and with Mr. Kay and Patron co-founded Gracewell Healthcare in 2010. Mr. Street has over 15 years of experience in the European healthcare market during which he has been involved in a number of management buy-outs and over £3.1 billion of successfully completed transactions and developments for investors such as 3i, Goldman Sachs and Allianz Capital Partners. Prior to joining Patron, Mr. Street was a Managing Director at Macquarie Capital Advisers, leading Macquarie’s European Healthcare Advisory Services. Mr. Street has held various Board level positions at Westminster Healthcare (acquired by Barchester), Priory and Four Seasons Healthcare. Mr. Street has been directly involved in the management and development of services in the elderly care, mental health, diagnostics and rehabilitation sectors and has developed and led successful commercial relationship with the NHS and Local Authorities. Mr. Street is Chartered Accountant and holds a Master of Business Administration (MBA) degree from Cranfield University – School of Management, England. He obtained a Bachelor of Business with majors in Accounting, Business Law and Taxation from Queensland University of Technology, Australia. Mr. Street resides in England and is a citizen of Australia.

**Georg von Hammerstein – Senior Adviser:** Mr. von Hammerstein joined Patron in May 2013 to originate new investments in Germany and German speaking countries and in helping drive exits for the current portfolio. Mr. von Hammerstein has over 25 years of experience in the German and European real estate industry. Prior to Patron, he was at Pramerica Real Estate, the European arm of the US American Prudential Inc., where he spent 14 years, the last 6 years as the European Chief Investment Officer and Chairman of the Investment Committee. He coordinated the transactions for all investment strategies from core to opportunistic for a variety of closed and open ended funds all across Europe including Russia and Turkey. Prior to that Mr. von Hammerstein worked for 5 years with Helaba, responsible for their real estate equity operations. He initiated Helaba’s subsidiary for joint venture developments and investments predominantly in Germany. Before that he developed residential properties on own account and held positions in real estate subsidiaries of Commerzbank and of Deutsche Bank/ECE Projektmanagement. Georg holds a MSc degree in economics (Diplom Kaufmann) from WHU Otto Beisheim School of Management, Koblenz and is fluent in English and French. He resides in the UK and in Germany.

**Josh Wyatt – Senior Adviser:** Mr. Wyatt joined Patron in 2005 and focuses on all aspects of origination, acquisition and management of hospitality sector investments. Since late 2014 Mr. Wyatt spends the majority of his time on the Generator Investment in his role as Chief Strategic Officer and also retains focus on supporting the investment teams in Patron’s existing hospitality investments and advising on new opportunities. Prior to joining Patron, he spent seven years in strategy consulting, focusing on financial, operational and property related issues within the Higher Education sector. Initially at Accenture and American Management Systems for three years, Mr. Wyatt subsequently co-founded the Armada Group in 1999, which was later sold in 2003 to Alchemy Ventures in the United Kingdom. Mr. Wyatt holds a BA degree in

International Studies and Economics from the American University (Washington DC) and an MBA from Harvard Business School. Mr. Wyatt is a citizen of the United States.



## Kentucky Retirement Systems

### Statement of Disclosure and Placement Agents – Manager Questionnaire

1. Did your firm use a placement agent as defined in the KRS “Statement of Disclosure and Placement Agents” policy in an effort to solicit an Investment from KRS? If yes, please continue to question 2; if no, please proceed to question 10.  
  
No
2. Please disclose the name of the placement agency used, the names of the individuals contracted by the placement agency (either as employees or as sub-agents) in order to solicit an investment from KRS, and the fees paid or payable to the placement agent in connection with a prospective KRS investment.
3. Please represent that any fees paid to placement agents are the sole obligation of the investment manager and not that of KRS or the limited partnership.
4. Please disclose the names of any current or former Kentucky elected or appointed government officials (federal, state, and local government), KRS Board of Trustees members, employees, or consultants of KRS, or any other person, if any, who suggested the retention of the placement agent.
5. Please provide evidence of the regulatory agencies, if any, in any Federal, state or foreign jurisdiction the placement agent or any of its affiliates are registered with, such as the Securities and Exchange Commission (“SEC”), FINRA, or any similar regulatory agency.
6. Please provide a resume for each officer, partner or principal of the Placement Agent detailing the person’s education, professional designations, regulatory licenses and investment and work experience.
7. Please describe the services to be performed by the Placement Agent.
8. Please disclose whether the Placement Agent, or any of its affiliates, is registered as a lobbyist with any and all Kentucky state and local (county) governments.
9. Please disclose any political contributions made by the Placement Agent, a Placement Agent principal, or their family as defined by KRS 11A.010(4) to: any Kentucky official; political party; political organization; or other political entity within the prior 2 years.

10. Please disclose the names of any current or former Kentucky elected or appointed government officials (federal, state, and local government) KRS Board of Trustees members, employees, or consultants of KRS that are receiving any fees or compensation from the External Manager and/or placement agent. Please disclose any additional known relationships or conflicts with same.

Not applicable

11. Please disclose any political contributions made by External Manager, its principals, or their family as defined by KRS 11A.010(4) to any Kentucky official; political party; political organization; or other political entity in the prior 2 years.

Not applicable

12. Please disclose whether any principals of the firm are the subject of any pending litigation or have been involved in any regulatory proceedings related to the performance of their duties as an investment adviser. If so, please supply details concerning the issue.

Not applicable

13. Please provide a statement representing and warranting the accuracy of the information provided to KRS regarding the Statement of Disclosure, and acknowledge that similar language will be included in any final written agreement with a continuing obligation to update any such information within 10 business days of any change in the information.

Our firm represents and warrants the accuracy of the information provided to KRS regarding this Statement of Disclosure, and acknowledges that similar language will be included in any final written agreement with a continuing obligation to update any such information within 10 business days of any change in the information.

 15 Jan 2016  
Signature Date

Print Name: CHRIS MARSHALL

Firm Name: PATRON CAPITAL GP V LIMITED

## KENTUCKY RETIREMENT SYSTEMS

**TO:** Members of the Board of Trustees

**FROM:** William A. Thielen  
Executive Director

**DATE:** February 18, 2016

**SUBJECT:** KRS Administrative Budget-to-Actual Expenditure Update

Accompanying this memorandum, you will find the spreadsheets showing KRS Administrative budget-to-actual expenditures for the second quarter (Q2) of Fiscal Year 2015-16. Key informational items for this period include:

- Total expenditures through December 31, totaled \$15.96 million with 61% of budget remaining.
- Overall, all expenditures including salaries and benefits remained below or on target with the budget.
- For the upcoming quarter, we expect higher technology expenditures than Q2 related to disaster recovery implementation, required server upgrades for .net versions, and contractor expenses for legal litigation and House Bill 62 agency withdrawal.
- Additional information includes two ancillary reports showing the split out of Internal Audit and Investments actual expenses (both within budgeted targets).

**RECOMMENDATION:** None. This item is presented for information purposes only.

**KRS ADMINISTRATIVE BUDGET 2015-2016**  
**SECOND QUARTER BUDGET-TO-ACTUAL ANALYSIS**  
**For the Month Ended December 2015**

Acc't #	Account Name	Budgeted	Actual	Remaining	% Remaining
<b>PERSONNEL</b>					
111	Salaries	\$14,600,000	\$8,006,002	\$6,593,998	45.16%
120	Benefits	\$9,000,000	\$4,914,570	\$4,085,430	45.39%
131	Workers Compensation	\$34,000	\$32,365	\$1,635	4.81%
132	Unemployment	\$10,000	\$288	\$9,712	97.12%
133	Tuition Assistance	\$35,000	\$14,196	\$20,804	59.44%
133I	Investment Tuition Assistance	\$5,000	\$0	\$5,000	100.00%
133T	Audit Tuition Assistance	\$2,500	\$0	\$2,500	100.00%
135	Bonds	\$3,000	\$0	\$3,000	100.00%
141	<b>LEGAL &amp; AUDITING SERVICES</b>				
141A	Legal Hearing Officers	\$344,000	\$95,364	\$248,636	72.28%
141B	Legal (Stoll, Keenon)	\$225,000	\$32,355	\$192,645	85.62%
141C	Poisinelli Shugart	\$100,000	\$0	\$100,000	100.00%
141E	Reinhart	\$350,000	\$42,152	\$307,848	87.96%
141F	Ice Miller	\$1,200,000	\$25,048	\$1,174,952	97.91%
142	Auditing	\$100,000	\$53,859	\$46,141	46.14%
146	<b>CONSULTING SERVICES</b>				
146A	Medical Reviewers	\$380,000	\$151,280	\$228,720	60.19%
146B	Medical Reports	\$10,000	\$0	\$10,000	100.00%
146C	Medical Exams	\$25,000	\$29,226	(\$4,226)	-16.90%
150	<b>CONTRACTUAL SERVICES</b>				
150C	Miscellaneous Contracts	\$270,000	\$69,418	\$200,582	74.29%
150D	Health Consultant	\$125,000	\$9,730	\$115,270	92.22%
150E	Banking	\$9,000	\$0	\$9,000	100.00%
150F	PBI	\$9,000	\$0	\$9,000	100.00%
150G	Human Resources Consulting	\$100,000	\$0	\$100,000	100.00%
150H	Health Insurance Admin Fee	\$2,200,000	\$856,042	\$1,343,958	61.09%
150I	Investment Consulting	\$600,000	\$144,103	\$455,897	75.98%
150J	Medical Claims TPA	\$2,941,997	\$0	\$2,941,997	100.00%
150K	Pharmacy Claims TPA	\$3,073,453	\$0	\$3,073,453	100.00%
159	Actuarial Services	\$600,000	\$254,324	\$345,676	57.61%
162	Facility Security Charges	\$3,000	\$689	\$2,311	77.03%
	<b>PERSONNEL SUBTOTAL</b>	<b>\$36,354,950</b>	<b>\$14,731,011</b>	<b>\$21,623,939</b>	<b>59.48%</b>

Acc't #	Account Name	Budgeted	Actual	Remaining	% Remaining
<b>OPERATIONAL</b>					
211	Natural Gas	\$25,000	\$2,811	\$22,189	88.76%
212	Electric	\$190,000	\$84,805	\$105,195	55.37%
221	Rent-NonState Building	\$33,500	\$16,344	\$17,156	51.21%
222	Rent -State Owned Building	\$705,000	\$349,167	\$355,833	50.47%
223	Equipment Rental	\$5,000	\$897	\$4,103	82.06%
224	Copier Rental	\$86,000	\$27,490	\$58,510	68.04%
226	Rental Carpool	\$0	\$0	\$0	
232	Vehicle/Equip. Mainten.	\$29,000	\$1,482	\$27,518	94.89%
241	Postage	\$525,000	\$169,021	\$355,979	67.81%
242	Freight	\$1,200	\$313	\$887	73.90%
251	Printing (State)	\$1,000	\$0	\$1,000	100.00%
252	Printing (non-state)	\$300,000	\$53,604	\$246,396	82.13%
254	Insurance	\$85,000	\$2,650	\$82,350	96.88%
256	Garbage Collection	\$15,000	\$6,148	\$8,852	59.02%
259	Conference Expense	\$40,000	\$4,639	\$35,361	88.40%
259I	Conference Exp. Investment	\$12,600	\$2,408	\$10,192	80.89%
259T	Conference Exp. Audit	\$1,500	\$765	\$735	49.00%
300	MARS Usage	\$31,000	\$13,550	\$17,450	56.29%
321	Office Supplies	\$96,300	\$24,797	\$71,503	74.25%
331	Data Processing Supplies	\$45,000	\$3,000	\$42,000	93.33%
343	Motor Fuels & Lubricants	\$3,000	\$1,035	\$1,965	65.51%
346	Furniture & Office Equipment	\$50,000	\$0	\$50,000	100.00%
361	Travel (In-State)	\$109,000	\$52,297	\$56,703	52.02%
361I	Travel (In-State) Investment	\$1,500	\$409	\$1,091	72.73%
361T	Travel (In-State) Audit	\$500	\$136	\$364	72.79%
362	Travel (Out of State)	\$40,000	\$791	\$39,209	98.02%
362I	Travel (Out of State) Invest	\$51,050	\$8,818	\$42,232	82.73%
362T	Travel (Out of State) Audit	\$2,500	\$1,103	\$1,397	55.88%
381	Dues & Subscriptions	\$48,000	\$18,991	\$29,009	60.43%
381I	Dues & Subscriptions Invest	\$42,000	\$4,862	\$37,138	88.42%
381T	Dues & Subscriptions Audit	\$1,000	\$180	\$820	82.00%
399	Miscellaneous	\$20,000	\$7,131	\$12,869	64.34%
399I	Miscellaneous Investment	\$16,700	\$1,037	\$15,663	93.79%
399T	Miscellaneous Audit	\$500	\$238	\$262	52.49%
601	Capital Outlay	\$300,000	\$0	\$300,000	100.00%
802	COT Charges	\$90,000	\$43,400	\$46,600	51.78%
814	Telephone - Wireless	\$8,000	\$3,519	\$4,481	56.01%
815	Telephone - Other	\$150,000	\$39,040	\$110,960	73.97%
847	Computer Equip./Software	\$1,600,000	\$277,665	\$1,322,335	82.65%
847I	Comp. Equip./Software Invest	\$190,000	\$0	\$190,000	100.00%
847T	Comp. Equip./Software Audit	\$1,000	\$0	\$1,000	100.00%
	<b>OPERATIONAL SUBTOTAL</b>	<b>\$4,951,850</b>	<b>\$1,224,545</b>	<b>\$3,727,305</b>	<b>75.27%</b>
	<b>TOTALS</b>	<b>\$41,306,800</b>	<b>\$15,955,556</b>	<b>\$25,351,244</b>	<b>61.37%</b>

**KRS ADMINISTRATIVE BUDGET 2015-16**

**INTERNAL AUDIT - BUDGET-TO-ACTUAL ANALYSIS**

For the Month Ended December 2015

Acc't #	Account Name	Budgeted	Actual Expense	Remaining	% Remaining
	<b>PERSONNEL (1)</b>				
133T	Audit Tuition Assistance	\$2,500	\$0	\$2,500	100%
	<b>PERSONNEL SUBTOTAL</b>	<b>\$2,500</b>	<b>\$0</b>	<b>\$2,500</b>	<b>100%</b>
	<b>OPERATIONAL</b>				
259T	Conference Exp. Audit	\$1,500	\$765	\$735	49%
361T	Travel (In-State) Audit	\$500	\$136	\$364	73%
362T	Travel (Out of State) Audit	\$2,500	\$1,103	\$1,397	56%
381T	Dues & Subscriptions Audit	\$1,000	\$180	\$820	82%
399T	Miscellaneous Audit	\$500	\$238	\$262	52%
847T	Comp. Equip./Software Audit	\$1,000	\$0	\$1,000	100%
	<b>OPERATIONAL SUBTOTAL</b>	<b>\$7,000</b>	<b>\$2,422</b>	<b>\$4,578</b>	<b>65%</b>
	<b>TOTALS</b>	<b>\$9,500</b>	<b>\$2,422</b>	<b>\$7,078</b>	<b>75%</b>

**INVESTMENT AUDIT - BUDGET-TO-ACTUAL ANALYSIS**

For the Month Ended December 2015

Acc't #	Account Name	Budgeted	Actual Expense	Remaining	% Remaining
	<b>PERSONNEL (1)</b>				
133I	Investment Tuition Assistance	\$5,000	\$0	\$5,000	100%
	<b>CONTRACTUAL SERVICES</b>				
141E	Reinhart	\$350,000	\$42,152	\$307,848	88%
150I	Investment Consulting (2)	\$600,000	\$144,103	\$455,897	76%
	<b>PERSONNEL SUBTOTAL</b>	<b>\$955,000</b>	<b>\$186,255</b>	<b>\$768,745</b>	<b>80%</b>
	<b>OPERATIONAL</b>				
259I	Conference Exp. Investment	\$12,600	\$2,408	\$10,192	81%
361I	Travel (In-State) Investment	\$1,500	\$409	\$1,091	73%
362I	Travel (Out of State) Investment	\$51,050	\$8,818	\$42,232	83%
381I	Dues & Subscriptions Invest	\$42,000	\$4,862	\$37,138	88%
399I	Miscellaneous Investment	\$16,700	\$1,037	\$15,663	94%
847I	Comp. Equip./Software Investment	\$190,000	\$0	\$190,000	100%
	<b>OPERATIONAL SUBTOTAL</b>	<b>\$313,850</b>	<b>\$17,534</b>	<b>\$296,316</b>	<b>94%</b>
	<b>TOTALS</b>	<b>\$1,268,850</b>	<b>\$203,790</b>	<b>\$1,065,060</b>	<b>84%</b>

(1) Staff salaries are included in total KRS Budget reporting.

(2) Management Consulting Fees were expensed to the Trusts for Investment Fee Transparency.

## KENTUCKY RETIREMENT SYSTEMS

**TO:** Members of the Board

**FROM:** William A. Thielen  
Executive Director

**DATE:** February 18, 2016

**SUBJECT:** Initial Retirement Cases, Second Quarter, 15-16

The tables below show the distribution of new retirees who retired during this quarter of the fiscal year by retirement mode and the retirees with 27 or more years of service.

### DISTRIBUTION BY RETIREMENT MODE

<u>MODE</u>	<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>	<u>PERCENT</u>
Normal Retirement	116	245	0	361	29.0%
Early Retirement	262	465	6	733	58.0%
Disability Retirement	19	53	0	72	6.0%
Retirement Eligible Refund	23	23	0	46	4.0%
Death of Members Eligible to Retire	9	31	2	42	3.0%
Grand Totals	429	817	8	1254	100%

### RETIREES WITH 27 OR MORE YEARS OF SERVICE

	<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
Under Normal Retirement Age	104	89	3	196
At and Over Normal Retirement Age	8	6	0	14
Grand Totals	112	95	3	210

**RECOMMENDATION:** This report is provided for informational purposes only. No action is required by the Board.

## KENTUCKY RETIREMENT SYSTEMS

**TO:** Members of the Board  
**FROM:** William A. Thielen  
Executive Director  
**DATE:** February 18, 2016  
**SUBJECT:** Death Benefit Payments, Second Quarter, 15-16

The table below reflects the number of deceased retired members whose death benefit was paid during this quarter of the fiscal year and the total amount paid by each system.

### DEATH BENEFIT PAYMENTS

	<u>Number of Deceased Retirees</u>	<u>Total Amount Paid</u>
KERS	187	\$935,000.00
CERS	212	\$1,060,000.00
SPRS	5	\$25,000.00
TOTALS	404	\$2,020,000.00

**RECOMMENDATION:** This report is provided for informational purposes only. No action is required by the Board.

## KENTUCKY RETIREMENT SYSTEMS

**TO:** Members of the Board

**FROM:** William Thielen  
Executive Director

**DATE:** February 18, 2016

**SUBJECT:** Refund of Member Contributions for Quarter Ended December 2015

The summary by system, age, and service credit of each person who received a refund during the second quarter of this fiscal year is attached.

There were 1,219 refunds totaling \$7,546,369 paid to former members of the systems during the second quarter. Refund payments during the past (12) twelve quarters were as follows:

<b>Quarter Ended</b>	<b>Amount</b>	<b>Number of Refunds</b>
<b>12/31/2015</b>	\$7,546,369	1,219
<b>09/30/2015</b>	\$9,457,518	1,967
<b>06/30/2015</b>	\$7,830,169	1,334
<b>03/31/2015</b>	\$8,735,671	1,393
<b>12/31/2014</b>	\$7,953,236	1,338
<b>09/30/2014</b>	\$11,208,677	2,465
<b>06/30/2014</b>	\$8,829,317	2,167
<b>03/31/2014</b>	\$8,595,267	1,605
<b>12/31/2013</b>	\$8,063,089	1,696
<b>09/30/2013</b>	\$9,525,226	1,791
<b>06/30/2013</b>	\$7,892,029	1,986
<b>03/31/2013</b>	\$8,854,181	1,592

**RECOMMENDATION:** This report is provided for informational purposes only. No action is required from the Board.

**Kentucky Retirement Systems  
Refund Distribution by Age and Service**

Start Date: 10/1/2015 End Date: 12/31/2015

Age	Years of Services					CERSHZ Totals
	0 < 5	5 < 10	10 < 15	15 < 20	20 - Up	
<b>0 - 19</b>	1	0	0	0	0	1 2.00% 935.57 0.15%
<b>20 - 29</b>	8	7	2	0	0	17 34.00% 109420.26 18.02%
<b>30 - 39</b>	4	7	2	0	7	20 40.00% 299832.75 49.38%
<b>40 - 49</b>	2	0	4	0	3	9 18.00% 178921.8 29.47%
<b>50 - 59</b>	1	0	0	0	1	2 4.00% 9733.56 1.60%
<b>60 - Up</b>	1	0	0	0	0	1 2.00% 8368.2 1.38%
<b>CERSHZ Totals</b>	17	14	8	0	11	50 100.00% 607212.14 100.00%
	34.00%	28.00%	16.00%	0.00%	22.00%	
	50201.8	120681.6	142156.85	0	294171.89	
	8.27%	19.87%	23.41%	0.00%	48.45%	

**Kentucky Retirement Systems**  
**Refund Distribution by Age and Service**

Start Date: 10/1/2015 End Date: 12/31/2015

Age	Years of Services					CERSNHZ Totals
	0 < 5	5 < 10	10 < 15	15 < 20	20 - Up	
<b>0 - 19</b>	1	0	0	0	0	1 0.17% 24.63 0.00%
<b>20 - 29</b>	53	31	9	0	1	94 15.54% 290260.81 9.44%
<b>30 - 39</b>	50	42	16	9	14	131 21.65% 752288.92 24.46%
<b>40 - 49</b>	58	41	21	14	29	163 26.94% 1081751.52 35.18%
<b>50 - 59</b>	42	28	22	5	16	113 18.68% 696998.83 22.66%
<b>60 - Up</b>	63	30	10	0	0	103 17.02% 253907.38 8.26%
<b>CERSNHZ Totals</b>	267 44.13% 348604.44 11.34%	172 28.43% 722984.41 23.51%	78 12.89% 558816.84 18.17%	28 4.63% 298013.07 9.69%	60 9.92% 1146813.33 37.29%	605 100.00% 3075232.09 100.00%

**Kentucky Retirement Systems**  
**Refund Distribution by Age and Service**

Start Date: 10/1/2015 End Date: 12/31/2015

Age	Years of Services					KERSHZ Totals
	0 < 5	5 < 10	10 < 15	15 < 20	20 - Up	
<b>0 - 19</b>	0	0	0	0	0	0 0.00% 0 0.00%
<b>20 - 29</b>	16	7	3	0	0	26 26.00% 109713.04 14.99%
<b>30 - 39</b>	18	14	3	3	6	44 44.00% 360375.53 49.25%
<b>40 - 49</b>	8	5	2	2	3	20 20.00% 223323.19 30.52%
<b>50 - 59</b>	3	0	2	0	0	5 5.00% 32589.22 4.45%
<b>60 - Up</b>	5	0	0	0	0	5 5.00% 5751.6 0.79%
<b>KERSHZ Totals</b>	50	26	10	5	9	100 100.00% 106841.46 14.60%
	50.00%	26.00%	10.00%	5.00%	9.00%	100.00% 731752.58 100.00%
	14.60%	22.50%	17.18%	13.53%	32.19%	

**Kentucky Retirement Systems**  
**Refund Distribution by Age and Service**

Start Date: 10/1/2015 End Date: 12/31/2015

Age	Years of Services					KERSNHZ Totals
	0 < 5	5 < 10	10 < 15	15 < 20	20 - Up	
<b>0 - 19</b>	5	0	0	0	0	5 1.08% 3430.37 0.11%
<b>20 - 29</b>	50	19	7	2	0	78 16.88% 252708.74 8.08%
<b>30 - 39</b>	50	52	19	15	12	148 32.03% 1017802.27 32.55%
<b>40 - 49</b>	40	24	21	12	20	117 25.32% 1202654.43 38.46%
<b>50 - 59</b>	30	21	11	5	4	71 15.37% 522882.5 16.72%
<b>60 - Up</b>	28	9	6	0	0	43 9.31% 127769.68 4.09%
<b>KERSNHZ Totals</b>	203 43.94% 303174.07 9.69%	125 27.06% 712144.72 22.77%	64 13.85% 654524.23 20.93%	34 7.36% 567819.96 18.16%	36 7.79% 889585.01 28.45%	462 100.00% 3127247.99 100.00%

**Kentucky Retirement Systems**  
**Refund Distribution by Age and Service**

Start Date: 10/1/2015 End Date: 12/31/2015

Age	Years of Services					SPRSZH
	0 < 5	5 < 10	10 < 15	15 < 20	20 - Up	Totals
<b>0 - 19</b>	0	0	0	0	0	0 0.00% 0 0.00%
<b>20 - 29</b>	1	0	0	0	0	1 50.00% 4830.1 98.10%
<b>30 - 39</b>	1	0	0	0	0	1 50.00% 93.71 1.90%
<b>40 - 49</b>	0	0	0	0	0	0 0.00% 0 0.00%
<b>50 - 59</b>	0	0	0	0	0	0 0.00% 0 0.00%
<b>60 - Up</b>	0	0	0	0	0	0 0.00% 0 0.00%
<b>SPRSZH</b>						
<b>Totals</b>	2	0	0	0	0	2
	100.00%	0.00%	0.00%	0.00%	0.00%	100.00%
	4923.81	0	0	0	0	4923.81
	100.00%	0.00%	0.00%	0.00%	0.00%	100.00%

## KENTUCKY RETIREMENT SYSTEMS

**TO:** Members of the Board  
**FROM:** William A. Thielen, Executive Director  
**DATE:** February 18, 2016  
**SUBJECT:** Report of Decisions by the Medical Examiners

### DISABILITY

During the second quarter of the fiscal year, the Medical Examiners reviewed a total of 166 applicants for disability retirement. There were 75 (45.18%) recommended for approval and 91 (54.82%) recommended for denial.

#### Approvals

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
20	55	0	75

#### Duty Related Approvals

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
0	0	0	0

#### Denials

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
25	66	0	91

**HAZARDOUS DISABILITY**

During the second quarter of the fiscal year, the Medical Examiners reviewed a total of 11 applicants for hazardous disability retirement. There were 5 (45.45%) recommended for denial and 6 (54.55%) recommended for approval.

**Approvals**

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
0	5	0	5

**In the Line of Duty Approvals**

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
0	1	0	1

**Total and Permanent Approvals**

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
0	0	0	0

**ANNUAL REVIEW OF DISABILITY RECIPIENTS**

During the second quarter of the fiscal year, the Medical Examiners made final decisions on a total of 175 annual reviews of disability recipients. The disability benefits of 166 recipients (94.86%) were continued and the disability benefits of 9 recipients (5.14%) were terminated.

**RECOMMENDATION:** This is for informational purposes only. No action is required by the board.

## KENTUCKY RETIREMENT SYSTEMS

**TO:** Members of the Board

**FROM:** William A. Thielen  
Executive Director

**DATE:** February 18, 2016

**SUBJECT:** Disability Appeals Committee Quarterly Report

The Disability Appeals Committee held meetings on October 29, November 30 and December 21, 2015. A total of 31 disability claims were acted upon during the quarter resulting in 21 denials, 6 approvals, 3 dismissals and 1 remand.

### Denials

KERS	CERS	SPRS
4	17	0

### Approvals

KERS	CERS	SPRS
2	4	0

### Dismissals

KERS	CERS	SPRS
3	0	0

### Remands

KERS	CERS	SPRS
0	1	0

**RECOMMENDATION:** This is for informational purposes only. No action is required by the Board.

## KENTUCKY RETIREMENT SYSTEMS

**TO:** Members of the Board

**FROM:** William A. Thielen  
Executive Director

**DATE:** February 18, 2016

**SUBJECT:** Administrative Appeals Committee Quarterly Report

The Administrative Appeals Committee held meetings on October 29, November 30 and December 21, 2015. A total of 11 cases were acted upon in the quarter resulting in 1 remand, 2 not bona fide and 8 dismissals.

	<u>Denials</u>	
	CERS	SPRS
KERS	0	0
0	0	0
	<u>Continuances</u>	
	CERS	SPRS
KERS	0	0
0	0	0
	<u>Discontinuances</u>	
	CERS	SPRS
KERS	0	0
0	0	0
	<u>Reinstatements</u>	
	CERS	SPRS
KERS	0	0
0	0	0
	<u>Not Bona Fide</u>	
	CERS	SPRS
KERS	0	0
0	2	0
	<u>Remands</u>	
	CERS	SPRS
KERS	1	0
1	0	0
	<u>Dismissals</u>	
	CERS	SPRS
KERS	2	0
2	6	0

**RECOMMENDATION:** This is for informational purposes only. No action is required by the Board.

**KENTUCKY RETIREMENT SYSTEMS**

**TO:** Members of the Board  
**FROM:** William A. Thielen  
**DATE:** February 18, 2016  
**SUBJECT:** Participation of Additional Agencies and Hazardous Positions

**PARTICIPATION—NONHAZARDOUS**

There is one (1) new agency electing to participate with the County Employees Retirement System under non-hazardous coverage. Copies of minutes, resolutions to participate and agency budgets will be available at the meeting for review. Contract for Health Insurance has been received for the agency electing to participate in CERS.

**RECOMMENDATION:** The Executive Director recommends that the Board approve the participation of City of Jeffersonville.

**THE FOLLOWING AGENCIES ARE ASKING FOR HAZARDOUS DUTY COVERAGE ON POSITIONS FOR EMPLOYEES WHO HAVE A PARTICIPATION DATE PRIOR TO SEPTEMBER 1, 2008.**

Louisville Jefferson County Metro Government has requested hazardous duty coverage for the following positions with an effective date of March 1, 2016:

**Licenses & Permits Investigator  
Licenses & Permits Manager**

**Licenses & Permits Supervisor**

There are no new employees to be covered under hazardous duty coverage at this time. Attached are copies of the Position Questionnaires and Job Descriptions.

**HAZARDOUS POSITIONS (FOR EMPLOYEES HIRED 9/1/08 OR AFTER)**

Louisville Jefferson County Metro Government has requested hazardous duty coverage for the following positions with an effective date of March 1, 2016:

**Licenses & Permits Investigator  
Licenses & Permits Manager**

**Licenses & Permits Supervisor**

There are no new employees to be covered under hazardous duty coverage at this time. Attached are copies of the Position Questionnaires and Job Descriptions.

**RECOMMENDATION:** The positions for which hazardous duty has been requested are presented for discussion.

## KENTUCKY RETIREMENT SYSTEMS

**TO:** Members of the Board

**FROM:** William A. Thielen  
Executive Director

**DATE:** February 18, 2016

**SUBJECT:** Applications to Voluntary Cease Participation in KERS

1. Commonwealth Credit Union
2. Kentucky Mutual Employees Insurance
3. Council of State Governments

Three participating employers, Commonwealth Credit Union, Kentucky Mutual Employees Insurance, and Council of State Governments, timely filed Forms 7730, Application to Voluntarily Cease Participation in CERS or KERS pursuant to Kentucky Revised Statute 61.522. All three employers filed the necessary documents, tendered the \$10,000 deposit, paid all outstanding invoices, and corrected all errors in reporting within their control.<sup>1</sup> None of these employers was a party to pending litigation with KRS. All three employers have expressed their intent to pay the full actuarial cost of withdrawal by lump sum payment.<sup>2</sup> Except for confidential employee data a copy of the applications and all supporting documentation have been provided in your materials.

As required by 105 KAR 1:145E Section 6(1), KRS sent initial notices to the affected employees on or about February 18, 2016. A copy of the initial notice is attached.

Commonwealth Credit Union, Kentucky Mutual Employees Insurance, and Council of State Governments have satisfied all the requirements to file an application to voluntarily cease participating established in 105 KAR 1:145E. Pursuant to 105 KAR 1:145E Section 4(6), the Board of Trustees must vote to either accept or reject these applications for processing.

**RECOMMENDATION:** Staff recommends that the Board of Trustees accept for processing the Form 7730, Applications for Voluntary Cessation from KERS filed by Commonwealth Credit Union, Kentucky Mutual Employees Insurance, and Council of State Governments.

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<sup>1</sup> Commonwealth Credit Union had one outstanding error that required additional issue analysis by KRS' Legal Dept. regarding creditable compensation. That analysis had not been completed prior to December 31, 2015.

<sup>2</sup> The requirements for filing are attached to this memorandum.

**SUMMARY OF KERS/CERS**  
**VOLUNTARY CESSATION PROCESS**

- I.** Resolution of Employer: The governing body of the employer must pass a resolution to voluntarily cease participation that includes the following provisions:
- (a) the employer has decided to voluntarily cease participation;
  - (b) the employer acknowledges that it is subject to KRS 61.522 and this administrative regulation;
  - (c) the employer acknowledges that it shall pay the full actuarial cost of withdrawal and all administrative costs;
  - (d) the employer acknowledges that its employees will no longer earn service credit for employment with the employer after the employer's approved cessation date;
  - (e) the employer agrees to cooperate with Kentucky Retirement Systems to educate its employees about the effect of the employer's cessation on their retirement accounts and their options regarding their retirement accounts; and
  - (f) that the employer shall not mandate, force, or require, its employees to take a refund of their accumulated account balance or retaliate against its employees who do not chose to take refunds of their accumulated account balance.
- II.** Outstanding Issues: KRS will not accept the application of an employer who:
- 1) has not paid or resolved its outstanding invoices;
  - 2) has errors in reporting; or
  - 3) is party to a pending legal action in which KRS is an adverse party.
- III.** Required Documents: The employer must attach the following documents to its application:
- 1) the employer's resolution
  - 2) A notarized copy of the official minutes of the meeting in which the Resolution was adopted;
  - 3) The employer's Articles of Incorporation, if applicable;
  - 4) The employer's current By-Laws, if applicable;

- 5) The employer's Certificate of Existence/Authorization from the Kentucky Secretary of State, if applicable;
- 6) Documentation of the alternative retirement program created by or being created by the employer for its employees, including a detailed written description of the alternative retirement program;
- 7) For each current and former full time employee:
  - i. Full names;
  - ii. Last known addresses;
  - iii. Dates of birth;
  - iv. Social security numbers or Kentucky Retirement Systems member ids;
  - v. Beginning dates of employment;
  - vi. Ending dates of employment, if applicable; and
  - vii. Sick leave balances.
- 8) The employer's most recent audited financial statement and independent auditor's report.
- 9) The employer's most recent five (5) Consolidated Annual Financial Reports;
- 10) Documentation of the employer's plan to pay the full actuarial cost including:
  - i. Funding source;
  - ii. List of real property owned by the employer, including deeds of conveyance, title, all liens or encumbrances on the real property and any current written contractual lease or rental agreement of the real property identified;
  - iii. List of liabilities of the employer;
  - iv. Inventory of all other chattel and personal property owned by the employer or in which the employer has an interest that may be used as collateral by the employer, including a description of the property, location of the property, and an estimated value;
- 11) Proposed Detailed Financing Statement, if the employer intends to pay in installments; and
- 12) List of active lawsuits, legal actions, arbitrations, mediations and other litigation, except for cases in which the employer is seeking to collect a debt owed to it by one of its members, pending to which the employer is a party including:
  - i. Name of the case;
  - ii. Number of the case;
  - iii. The name and address of the Court, arbitrator, mediator, or administrative agency in which the case is pending; and
  - iv. A copy of the Complaint or a description of the allegations made in the Complaint as well as the type and amount of relief sought by the Plaintiff(s).

## EXAMPLE INITIAL NOTICE

{Full\_Name}  
{ADDRESS\_LINE\_1}  
{ADDRESS\_LINE\_2}  
{CITY} {STATE} {ZIP\_CODE}

Dear {Full\_Name}:

This notice is to inform you that your current or former employer, {Agency Name1}, has filed an application with Kentucky Retirement Systems (KRS) to voluntarily cease participation in the {System1}. The Board of Trustees of KRS will decide whether to accept {Agency Name2}'s application for processing at its regularly scheduled quarterly meeting in February 2016. If the application for processing is accepted by KRS' Board of Trustees, {Agency Name2} will cease participating in {System2} after June 30, 2016. A final determination regarding {Agency Name2}'s application to cease participation in {System2} is not expected until the spring of 2017.

If {Agency Name2}'s voluntary cessation application is accepted for processing, your {System2} account may be affected in certain ways. Some of the possible effects are listed in items 1-5 below.

1. If you are retired in {System2} on or before June 30, 2016, you are not affected by {Agency Name2}'s voluntary cessation of participation in {System2} unless a discrepancy is identified in your account.
2. If you are not retired in {System2} on or before June 30, 2016, then the benefit that you have earned under {System2} through June 30, 2016 is not affected by {Agency Name2}'s voluntary cessation of participation in {System2}, so long as you do not choose to take a refund of your employee contribution account balance.
3. Effective July 1, 2016, you will no longer earn additional service credit in {System2} through {Agency Name2}.
4. Effective July 1, 2016, you will no longer make employee contributions to {System2} through {Agency Name2}.
5. Your ability to purchase service may be affected. More information regarding service purchases is attached.

If you identify a discrepancy in your account information, have questions, or desire to purchase service credit, please send your name and contact information to [KRSEmployerWithdrawal@kyret.ky.gov](mailto:KRSEmployerWithdrawal@kyret.ky.gov). You are encouraged to utilize Kentucky Retirement Systems' Member Self-Service to review your account information at <https://myretirement.ky.gov>. Additional information regarding accessing Member Self-Service is attached. In addition to the tools available through KRS' Member Self-Service interface, KRS' webpage <https://kyret.ky.gov> contains a wealth of information intended to assist members in understanding KRS. Specifically, there are several publications on KRS' website that provide general information about KRS and its benefits available at <https://kyret.ky.gov/about/Publications/Pages/default.aspx>.

## KENTUCKY RETIREMENT SYSTEMS

**TO:** Members of the Board

**FROM:** William A. Thielen  
Executive Director

**DATE:** February 18, 2016

**SUBJECT:** Hazardous Member Insurance Premium Issue – Failure to File Form 6256

As you are aware, KRS hazardous duty members were notified via the Open Enrollment materials mailed in the Fall of 2015 and by a separate memorandum mailed in December 2015 that they were required to submit the KRS Form 6256 verifying the eligibility of a spouse or dependent children by December 31, 2015 to continue to receive the KRS premium contribution for beneficiary health insurance for the 2016 plan year. Additionally, most KRS hazardous duty members with dependent children received a separate certified letter regarding the same issue.<sup>1</sup>

KRS hazardous duty members who failed to remit the Form 6256 by December 31, 2015 only received a contribution amount to off-set the individual members' health insurance premium for January, and in some cases February, 2016. The costs of additional couple or family coverage were deducted from the member's benefit.

Some affected members contacted KRS, remitted the required Form 6256, and were notified that they could file a grievance regarding the insurance premium deduction. If a grievance was filed and KRS determined that there was an error or failure to properly advise the member on the part of KRS, the benefit deduction has been refunded. To-date, 111 grievances have been denied and 52 have been granted. Approximately 20 additional grievances are being reviewed.

The issue is whether KRS should grant an "exemption" to KRS hazardous duty members who did not remit Form 6256 in a timely manner and refund all of the corresponding premium deductions. If the Board determines that a blanket exemption is appropriate, it should establish the parameters of the current exemption and how KRS should administer the verification requirement on a "go forward" basis.

**RECOMMENDATION:** None at this time.

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<sup>1</sup> Copies of Form 6256 and information on this issue published on KRS' website are attached to this memorandum.